TOD'S s.p.a.

2017 Annual Report

(Translation of the 2017 Annual Report approved in Italian solely for the convenience of international readers)

TABLE OF CONTENTS

Company’s data

Registered office

TOD’S S.p.A.

Via Filippo Della Valle, 1

63811 Sant'Elpidio a Mare (Fermo) - Italy

Tel. +39 0734 8661

Legal data Parent company

Share capital resolved euro 66,187,078

Share capital subscribed and paid euro 66,187,078

Fiscal Code and registration number on Company Register of Court of Fermo: 01113570442

Registered with the Chamber of Commerce of Fermo under n. 114030 R.E.A.

Offices and Showrooms

Munich – Domagkstrasse 1/b, 2

Hong Kong – 35/F Lee Garden one, 33 Hysan Avenue, Causeway Bay

London – Wilder Walk, 1

Milan - Corso Venezia, 30

Milan - Via Savona, 56

Milan - Via Serbelloni, 1-4

New York - 450, West 15th Street

Paris – Rue de Faubourg Saint-Honore, 29

Paris – Rue du Général FOY, 22

Paris – Rue de L’Elysée, 22

Seoul – 11/F Pax Tower 609, Eonju-ro, Gangnam-gu

Shanghai - 1717 Nanjing West Road, Wheelock Square 45/F

Tokyo – Omotesando Building, 5-1-5 Jingumae

Production facilities

Comunanza (AP) - Via Merloni, 7

Comunanza (AP) - Via S.Maria, 2-4-6

Sant'Elpidio a Mare (FM) - Via Filippo Della Valle, 1

Bagno a Ripoli, Loc. Vallina (FI) - Via del Roseto, 60

Bagno a Ripoli, Loc. Vallina (FI) - Via del Roseto, 50

Tolentino (MC) - Via Sacharov 41/43

Arquata del Tronto (AP) - Zona Industriale Pescara del Tronto

Durres (Albania) – Rr. Jakov Xoxa Prane - Nish Goma – Shkozet

Report on operations

Corporate Governance bodies

Board of directors [(1)]	Diego Della Valle	Chairman
	Andrea Della Valle	Vice - Chairman
	Luigi Abete	
	Maurizio Boscarato	
	Luigi Cambri	
	Sveva Dalmasso	
	Emanuele Della Valle	
	Romina Guglielmetti	
	Emilio Macellari	
	Vincenzo Manes	
	Cinzia Oglio	
	Pierfrancesco Saviotti	
	Michele Scannavini	
	Stefano Sincini	
Executive Committee	Diego Della Valle	Chairman
	Andrea Della Valle	
	Emilio Macellari	
	Stefano Sincini	
Compensation Committee	Luigi Abete	Chairman
	Sveva Dalmasso	
	Vincenzo Manes	
Control and Risk Committee	Luigi Cambri	Chairman
	Maurizio Boscarato	
	Romina Guglielmetti	
Independent Directors Committee	Vincenzo Manes	Chairman
	Romina Guglielmetti	
	Pierfrancesco Saviotti	
Board of statutory Auditors [(2)]	Giulia Pusterla	Chairman
	Enrico Colombo	Acting stat. auditor
	Fabrizio Redaelli	Acting stat. auditor
	Myriam Amato	Substitute auditor
	Gilfredo Gaetani	Substitute auditor
Independent Auditors [(3)]	PricewaterhouseCoopers S.p.A.	
Manager charged with preparing a company's financial report	Rodolfo Ubaldi	

[(1)] Term of the office: 2015-2017 (resolution of the Shareholders' meeting as of April 22nd, 2015)
[(2)] Term of the office: 2016-2018 (resolution of the Shareholders' meeting as of April 20th, 2016)
[(3)] Term of the office: 2012-2020 (resolution of the Shareholders' meeting as of April 19th, 2012)

TOD'S Group

TOD'S S.p.A.
Parent Company, owner of TOD'S, HOGAN and FAY brands

Del.Com. S.r.l.
Sub-holding for operation of national subsidiaries and DOS in Italy

TOD'S International B.V.
Sub-holding for operation of international subsidiaries and DOS in The Netherlands

An.Del. Usa Inc.
Sub-holding for operation of subsidiaries in the United States

Del.Pav S.r.l.
Company that operates DOS in Italy

Filangieri 29 S.r.l.
Company that operates DOS in Italy

Gen.del. SA
Company that operates DOS in Switzerland

TOD'S Belgique S.p.r.l.
Company that operates DOS in Belgium

TOD'S Deutschland Gmbh
Company that distributes and promotes products in Germany and manages DOS in Germany

TOD'S Espana SL
Company that operates DOS in Spain

TOD'S France Sas
Company that operates DOS in France

TOD'S Japan KK
Company that operates DOS in Japan

TOD'S Macao Ltd
Company that operates DOS in Macao

TOD'S Hong Kong Ltd
Company that distributes and promotes products in Far East and South Pacific and manages DOS in Hong Kong. Sub-holding for operation of international subsidiaries in Asia

TOD'S Korea Inc.
Company that distributes and promotes products in Korea and operates DOS in Korea

TOD'S Retail India Private Ltd
Company that operates DOS in India

TOD'S (Shanghai) Trading Co. Ltd
Company that distributes and promotes products in China and operates DOS in China

TOD'S Singapore Pte Ltd
Company that operates DOS in Singapore

TOD'S UK Ltd
Company that operates DOS in Great Britain

Webcover Ltd
Company that operates DOS in Great Britain

Cal.Del. Usa Inc.
Company that operates DOS in California (USA)

Deva Inc.
Company that distributes and promotes products in North America, and manages DOS in the State of NY (USA)

Flor. Del. Usa Inc.
Company that operates DOS in Florida (USA)

Hono. Del. Inc.
Company that operates DOS in Hawaii (USA)

Il. Del. Usa Inc.
Company that operates DOS in Illinois (USA)

Neva. Del. Inc.
Company that operates DOS in Nevada (USA)

Or. Del. Usa Inc.
Company that operates DOS in California (USA)

TOD'S Tex. Del. Usa Inc.
Company that operates DOS in Texas (USA)

Holpaf B.V.
Real estate company that operates one DOS in Japan

Alban.Del Sh.p.k.
Production company

Sandel SA
Not operating company

Un.Del. Kft
Production company

Re.Se.Del. S.r.l.
Company for services

Roger Vivier S.p.A.
Owner of ROGER VIVIER brand and sub-holding for operation of international subsidiaries and DOS in Italy

Roger Vivier Hong Kong Ltd
Company that distributes and promotes products in Far East and South Pacific and manages DOS in Hong Kong. Sub-holding for operation of subsidiaries in Asia

Roger Vivier Singapore Pte Ltd
Company that operates DOS in Singapore

Roger Vivier (Shanghai) Trading Co. Ltd
Company that operates in China

Roger Vivier UK Ltd
Company that operates DOS in Great Britain

TOD'S Georgia Inc.
Company that operates DOS in Georgia (USA)

Roger Vivier France Sas
Company that operates DOS in France

Roger Vivier Korea Inc.
Company that operates DOS in Korea and that distributes and promotes products in Korea

Roger Vivier Switzerland S.A.
Company that operates DOS in Switzerland

Roger Vivier Macau Ltd.
Company that operates DOS in Macao

Roger Vivier Japan KK
Company that operates DOS in Japan

TOD'S Danmark APS
Company that operates DOS in Denmark

TOD'S Austria GMBH
Company that operates DOS in Austria

TOD'S Washington Inc.
Company that operates DOS in Washington (USA)

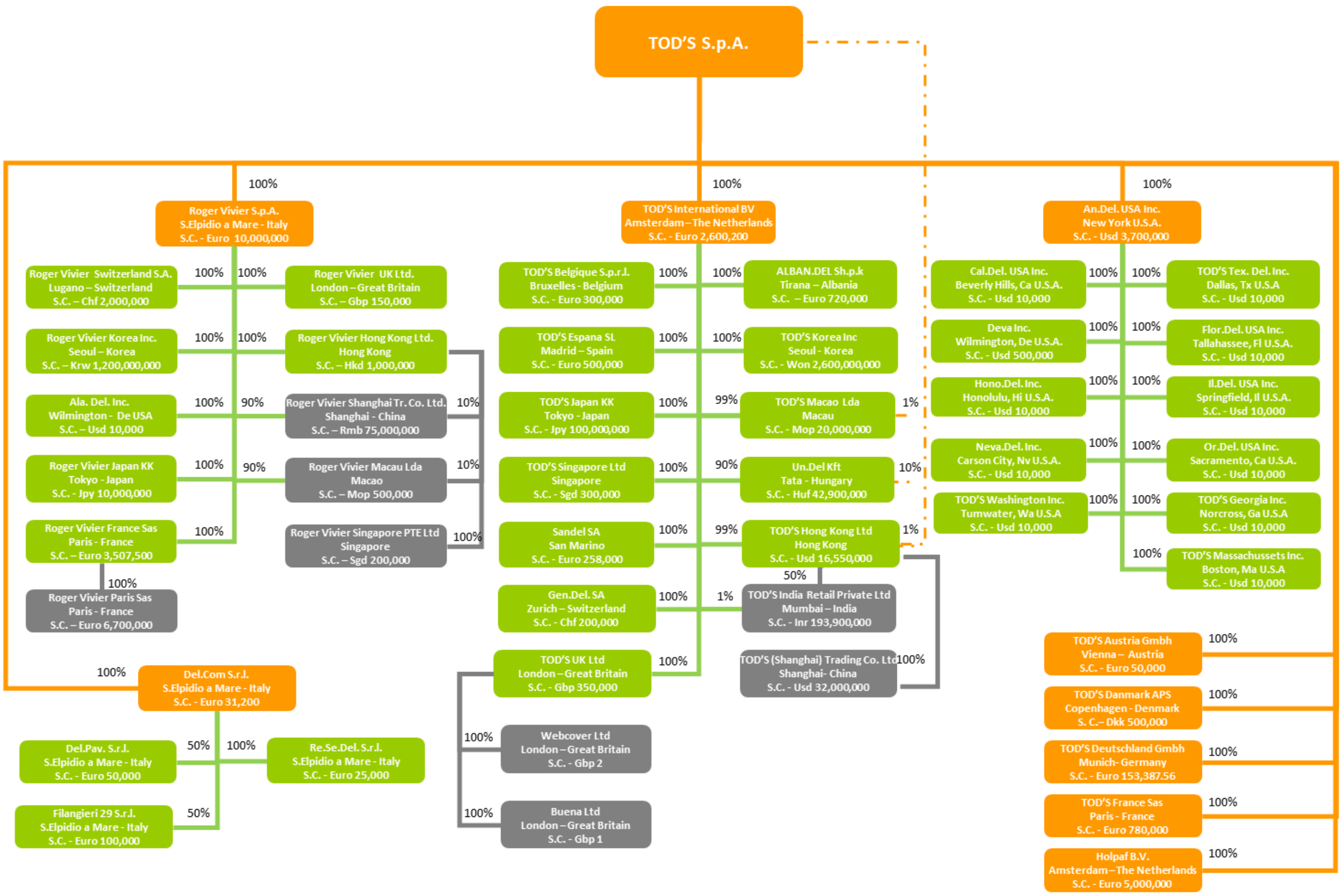
Ala Del Inc.
Company that operates DOS in Delaware (USA)

TOD'S Massachussets Inc.
Company that operates DOS in Massachussets (USA)

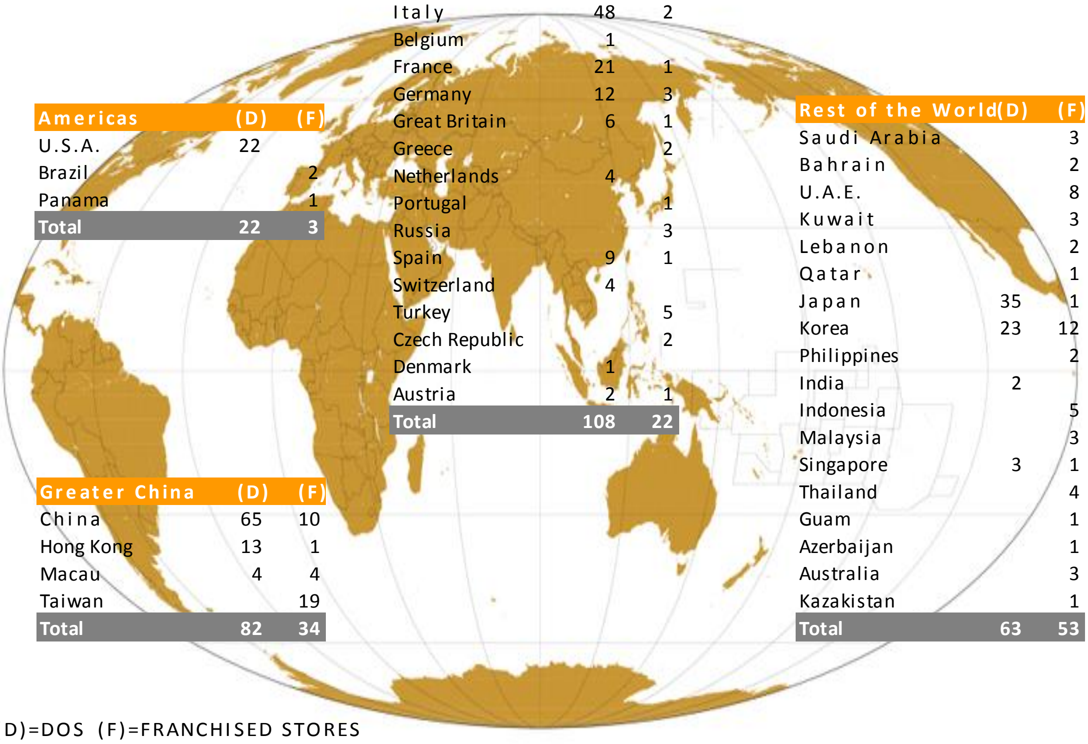
Roger Vivier Paris Sas
Company that operates DOS in France

Buena Ltd.
Company that provides services

Group's organizational chart



Distribution network as of December 31st, 2017



Europe	(D)	(F)
Italy	48	2
Belgium	1	
France	21	1
Germany	12	3
Great Britain	6	1
Greece		2
Netherlands	4	
Portugal		1
Russia		3
Spain	9	1
Switzerland	4	
Turkey		5
Czech Republic		2
Denmark	1	
Austria	2	1
Total	108	22

Americas	(D)	(F)
U.S.A.	22	
Brazil		2
Panama		1
Total	22	3

Rest of the World	(D)	(F)
Saudi Arabia		3
Bahrain		2
U.A.E.		8
Kuwait		3
Lebanon		2
Qatar		1
Japan	35	1
Korea	23	12
Philippines		2
India	2	
Indonesia		5
Malaysia		3
Singapore	3	1
Thailand		4
Guam		1
Azerbaijan		1
Australia		3
Kazakistan		1
Total	63	53

Greater China	(D)	(F)
China	65	10
Hong Kong	13	1
Macau	4	4
Taiwan		19
Total	82	34

(D)=DOS (F)=FRANCHISED STORES

DOS, 2017 new openings

Europe

Barcellona	(Spain)
Vienna	(Austria)
Serravalle	(Italia)
Rome	(Italy)
Rome	(Italy)
Berlin	(Germany)

Greater China

Tianjin	(China)
Nanjing	(China)
Shanghai	(China)
Shenyang	(China)
Beijing	(China)

Americas

San Francisco	(USA)
Boston	(USA)

Rest of the World

Seoul	(Korea)
Daegu	(Korea)
Fukuoka	(Japan)

Franchised stores, 2017 new openings

Europe

Prague	(Czech Republic)
Istanbul	(Turkey)

Rest of the World

Seoul	(Korea)
Seoul	(Korea)
Seoul	(Korea)
Kuwait City	(Kuwait)

Greater China

JinHan	(China)
Changchun	(China)
Kunming	(China)
Harbin	(China)

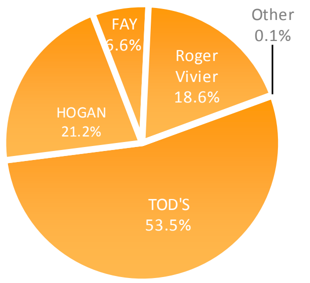
Americas

San Paolo	(Brazil)
San Paolo	(Brazil)

For a complete list of retail outlets operated by the DOS and franchising network, reference should be made to the corporate web site: www.todsgroup.com

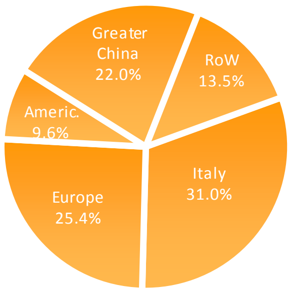
Key consolidated financial figures

2017 Revenues - % by brand



P&L key figures (euro mn)	FY 17		FY 16		FY 15	
Revenues	963.3		1,004.0		1,037.0	
EBITDA	160.5	16.7%	180.9	18.0%	202.6	19.5%
EBIT	111.8	11.6%	128.4	12.8%	148.6	14.3%
Profit before tax	101.9	10.6%	115.0	11.5%	137.3	13.2%
Profit for the period	69.4	7.2%	85.8	8.5%	92.1	8.9%

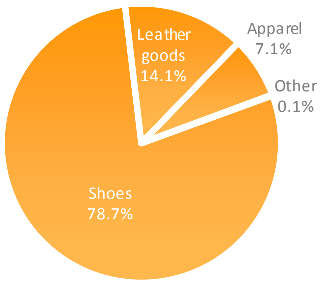
2017 Revenues - % by region



Main Balance Sheet indicators (euro mn)	Dec. 31st, 17	Dec. 31st, 16	Dec. 31st, 15
Net working capital (*)	261.3	279.2	316.1
Intangible and tangible fixed assets	802.9	822.5	417.3
Shareholders' equity	1,087.2	1,090.5	866.1
Net financial position	9.3	(35.4)	134.2
Capital expenditures	36.6	449.9	47.9

(*) Trade receivable + inventories - trade payables

2017 Revenues - % by product



Financial key indicators (euro mn)	Dec. 31st, 17	Dec. 31st, 16	Dec. 31st, 15
Operating cash flow	165.8	212.6	138.2
Net operating cash flow	148.2	149.7	107.7
Cash flow generated/(used)	(6.3)	7.9	49.1

Highlights of results

Revenues: 2017 revenues of 963.3 million euros, decreased by 4.1% in respect to 2016. The DOS network had sales of 621.1 million euros (-1.5%).

EBITDA: this totalled 160.5 million euros (180.9 million euros in 2016). The ratio of EBITDA to sales is 16.7%.

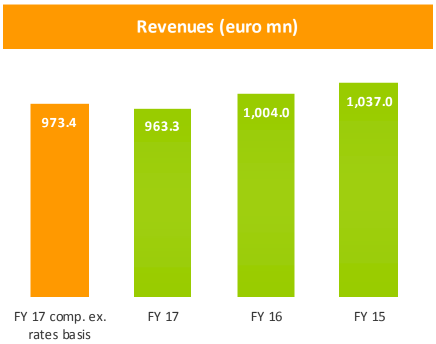
EBIT: this totalled 111.8 million euros (128.4 million euros in 2016), The ratio of EBITDA to sales is 11.6%.

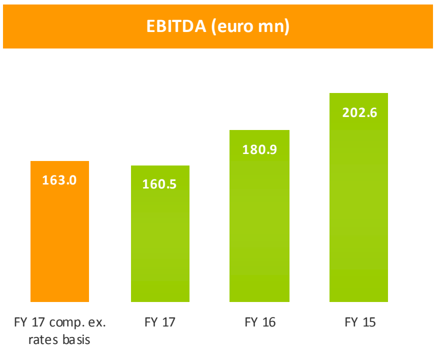
Net profit: consolidated profit for FY 2017 was 69.4 million euros, representing 7.2% of consolidated sales.

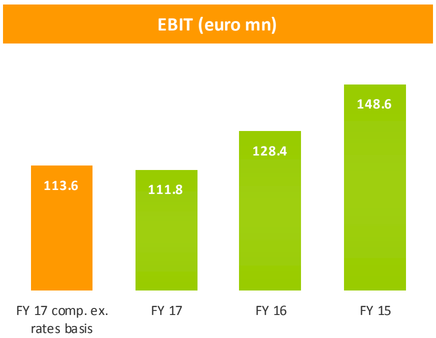
Net financial position (NFP): the Group had 221.6 million euros in liquid assets at December 31st, 2017 (227.7 million euros in 2016). The net financial position at the same date was positive for 9.3 million euros (in 2016 it was negative for 35.4 million euros).

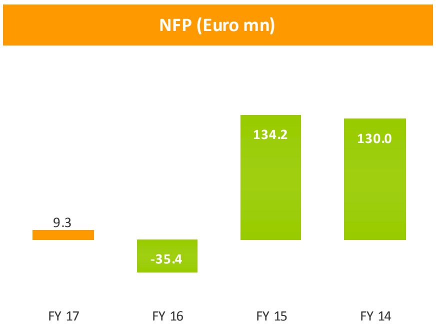
Capital expenditure: amount to 36.6 million euros capital expenditures occurred in 2017; they were 449.9 million euros in 2016 (including 415 million euros related to the acquisition of ROGER VIVIER brand).

Distribution network: a total of 16 new DOS were opened during the financial year. At December 31st, 2017 the single brand distribution network comprised 275 DOS and 112 *franchised stores*.



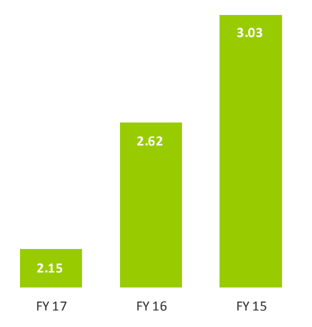




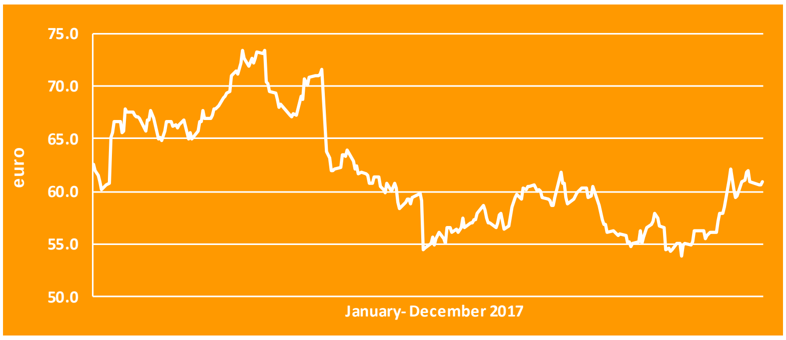


Main stock Market indicators (euro)	
Official price at 02.01.2017	62.52
Official price at 29.12.2017	60.90
Minimum price	53.80
Maximum price	73.45
Market capitalization at 02.01.2017	2,069,008,058
Market capitalization at 29.12.2017	2,015,396,591
Dividend per share 2016	1.70
Dividend per share 2015	2.00
Number of outstanding shares at December 31st, 2017	33,093,539

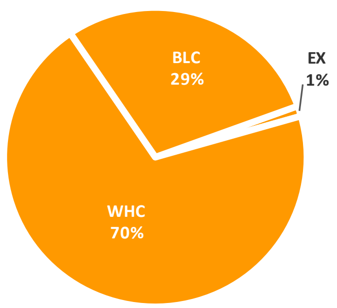
Earning per share (euro)



Stock performance



2017 Group's employees



The Group's employees	FY 17	FY 16	FY 15	FY 14
Year to date	4,627	4,485	4,550	4,297
Average	4,572	4,514	4,464	4,034

EX = executives

WHC = white collar employees

BLC = blue colar employees

Introduction

In accordance with article 40 paragraph 2 *bis* of the Legislative Decree n. 127 of April 9th, 1991, the Parent company has prepared the Report of the Board of Directors on Operations as a single document for both the separate financial statements of TOD'S S.p.A. and the Group consolidated financial statements.

The Report on Operations must be read together with the Financial Statements and Notes to the Financial Statements, which are an integral part of both the Consolidated Annual Report and the separate financial statements. The Report on Operations also includes the additional information required by CONSOB, pursuant to the orders issued in implementation of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, as well as all subsequent notices containing provisions regarding financial disclosures.

In order to strip the effects of changes in exchange rates with respect to the average values for the previous year from the results for the 2017 financial year, the typical economic reference indicators (Revenues, EBITDA, and EBIT) have been recalculated by applying the average exchange rates for 2016, rendering them fully comparable with those for the previous reference period. Note that on the one hand, these principles for measurement of business performance represent a key to interpretation of results not envisaged in IFRSs, and on the other hand, must not be considered as substitutes for what is set out in those standards.

Moreover, the Report on Operations includes non-financial statement related to the fiscal year 2017 in accordance with articles 3 and 4 of the Legislative Decree n. 254 of December 23rd, 2016.

Group's activity

TOD'S Group operates in the luxury sector under its own brands TOD'S, HOGAN, FAY and ROGER VIVIER. It actively creates, produces and distributes shoes, leather goods and accessories, and apparel.

The Group's organizational configuration rotates around TOD'S S.p.A. that is at the heart of the Group's organization, its parent company owns TOD'S, HOGAN, FAY and, under a license agreement, ROGER VIVIER brands, the latter owned by the subsidiary Roger Vivier S.p.A. Through a series of sub-holdings, the organization is rounded out by a series of commercial companies that are delegated complete responsibility for retail distribution through the DOS network. Certain of them, strategically located on international markets, are assigned major roles in product distribution, marketing and promotion, and public relations processes along the "value chain", while simultaneously guaranteeing the uniform image that Group brands must have worldwide.

The Group's production structure is based on complete control of the production process, from creation of the collections to production and then distribution of the products. This approach is considered key to assuring the prestige of its brands.

Shoes and leather goods are produced in Group-owned plants, with partial outsourcing to specialized workshops. All of these outsourcers are located in areas with a strong tradition of shoe and leather good production. This preference reflects the fact that an extremely high standard of professional quality is required to make these items, with a significantly high level of added value contributed to the final product by manual work.

The Group relies exclusively on selected specialized outsourcers, which enables it to exploit their respective specializations in crafting the individual products sold as part of the apparel line.

The prestige of the Group's brands and the high degree of specialization necessary to offer the respective products to customers entails distribution through a network of similarly specialized stores. Accordingly, the Group relies principally on three channels: DOS (directly operated stores), franchised retail outlets, and a series of selected, independent multibrand stores. E-commerce channel, which was started some years ago, is getting more relevant.

Main events and operations during the year of TOD'S Group

The macroeconomic scenario in which the Group operates continues to be marked by situations of uncertainty that have long been affecting international markets, making them unstable and volatile. In particular the luxury sector is in a phase of rapid change, with specific features that have affected, and will continue to affect, consumption in the various geographical areas of the global market, which show opposite trends. On the one hand there was weakness in consumption in the USA, which was adversely affected by both the uncertain political context and the strong US Dollar, which continued to limit both domestic demand and tourism consumption, with greater effects on sales in department stores, this being a channel that accounts for a substantial share of this market and that continues to experience a prolonged crisis. On the other hand, there was an improvement in the Mainland China market, which moved back to growth after years of decline, mainly thanks to a recovery in local consumption that was also driven by greater price alignment linked to currency trends in international markets. Furthermore Chinese customers continued to account for a substantial share of the luxury market linked to tourist flows. Consumption showed positive signals in the European market too, thanks to both a partial recovery in domestic consumption and an increase in the abovementioned tourist flows, which moved back to growth following uncertainties arising from social tensions and above all from terrorism risks. Consumption also recorded positive trends in the UK market too, driven by fresh optimism after Brexit.

The Group’s performances during the 2017 financial year were affected by this volatile context, recording trends in international markets that were substantially in line with the abovementioned general trends, reporting an overall reduction of 4.1%, in terms of revenues, compared to the previous year and showing an upward trend in the fourth quarter of the year.

Another important phenomenon that marked the relevant context of the sector more than in the past concerned the consumer’s greater tendency to high-end brands. Very positive results were recorded by the ROGER VIVIER brand, which is increasingly becoming a point of reference in the most exclusive luxury segment: sound growth in sales of the brand in all geographical areas in which it is distributed, except only for the USA due to the factors commented on above which are affecting this market.

As regards the Group’s organisation, some changes were made in the team of managers, which allowed the recruitment of new professionals, with different experience and also coming from other sectors, with the aim to provide different approaches and to boost development of business strategies and future projects.

As regards its business development, the Group continued to definitely invest in digital media, a key sales and communication channel that is suddenly revolutionising the business model adopted by all players in the sector, thus significantly increasing the number of events and ways of interaction with global consumers. The objective is to accompany the customer according to a 360-degree approach, offering an increasingly advanced and rewarding brand experience and making purchase experience more fluid among different channels, both physical and digital. In this context there also was the renewal of the strategic partnership agreement with Italiantouch S.r.l. for five additional years, for the development of the Group’s e-commerce channel, in order to achieve new key targets through digital innovation, the development of already existing markets and the implementation of the channel in new geographical areas.

The investments made in the year were mainly dedicated to the development of DOS network and to relocations and renovations of existing stores, as well as to the start-up of pop-up store projects, characterised by increasingly new and different interiors and approaches, but with an image consistent with that of the brands. Furthermore, the new plant in Arquata del Tronto was constructed and inaugurated, which will employ young people working in the area, thus giving tangible signs of the Group’s commitment in support of the population living in the Marche town and adjacent areas, which were hit by earthquake in August 2016.

The Group's results in 2017

Consolidated sales were 963.3 million euros, decreased by 4.1% in respect to 2016 turnover when it was 1,004 million euros. The impact of currency fluctuations was negative: at constant exchange rates, sales revenue would have been 973.4 million euros, showing a reduction of 3.1% in respect to 2016. Operating margins, EBITDA and EBIT, were 160.5 million euros and 111.8 million euros respectively (while at a constant exchange rate would have been 163 and 113.6 million euros). Consolidated net profit was 69.4 million euros, decreased by 16.4 million euros in respect to 85.8 million euros of the previous year 2016.

euro 000's Main economic indicators	Year 17	Year 16	Change	%
Sales Revenues	963,287	1,004,021	(40,735)	(4.1)
EBITDA	160,492	180,908	(20,415)	(11.3)
Deprec., amort., write-downs and advances	(48,732)	(52,547)	3,814	(7.3)
EBIT	111,760	128,361	(16,601)	(12.9)
Profit before taxes	101,897	114,967	(13,070)	(11.4)
Profit for the period	69,362	85,768	(16,407)	(19.1)
Foreign exchange impact on revenues	10,089			
Adjusted Sales Revenues	973,376	1,004,021	(30,645)	(3.1)
Foreign exchange impact on operating costs	(7,604)			
Adjusted EBITDA	162,978	180,908	(17,930)	(9.9)
Foreign exchange impact on deprec.& amort.	(685)			
Adjusted EBIT	113,561	128,361	(14,800)	(11.5)
EBITDA %	16.7	18.0		
EBIT %	11.6	12.8		
Adjusted EBITDA %	16.7	18.0		
Adjusted EBIT %	11.7	12.8		
Tax Rate %	31.9	25.4		

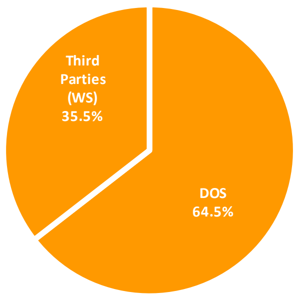
In order to get a full comparability of 2017 results with previous year results, note that EBITDA and EBIT at December 31st, 2016, net of non-recurring transactions for a net amount of 0.8 million euros, were 180.1 and 127.6 million euros respectively for a ratio on sales revenue of 17.9% and 12.7%. Note that non-recurring transactions didn't occur during the year 2017.

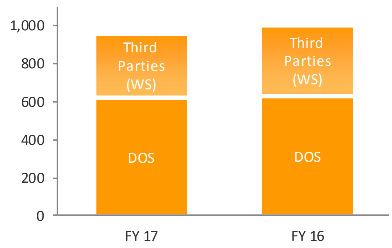
euro 000's Main Balance Sheet Indicators	12.31.17	12.31.16	Change
Net working capital (*)	261,346	279,230	(17,883)
Intangible and tangible fixed assets	802,937	822,523	(19,587)
Other current assets/liabilities	13,530	24,109	(10,579)
Net assets held for sale			
Invested capital	**1,077,813**	**1,125,862**	**(48,049)**
Net financial position	9,339	(35,381)	44,720
Shareholders' equity	**1,087,152**	**1,090,481**	**(3,329)**
Capital expenditures	36,627	449,908	(413,281)
Net cash flows from operating activities	148,195	149,684	(1,489)
Cash flow generated/(used)	(6,293)	7,929	(14,223)

(*) Trade receivable + inventories - trade payables

Revenues. Tod's Group consolidated sales were 963.3 million euros in FY 2017, down 4.1% from FY 2016. In Q4 2017, even if the trend was slightly negative, it is better than in the first nine months of the year. At constant exchange rates, meaning by using FY 2016 average exchange rates, including the related effects of hedging derivatives, sales would have been 973.4 million Euros (-3.1% from the previous year). In FY 2017, sales through DOS totalled 621.1 million euros, representing approx. two thirds of consolidated turnover. The change in respect to previous year is -1.5%, while at constant rates, the value is broadly in line with the figure of last year. The Same Store Sales Growth (SSSG) rate, calculated as the worldwide average of sales growth rates at

(euro mn)	FY 17	%	FY 16	%	% current exch. rates	% constant exch. rates
DOS	621.1	64.5	630.3	62.8	(1.5)	0.1
Third Parties (WS)	342.2	35.5	373.7	37.2	(8.4)	(8.4)
Total	**963.3**	**100.0**	**1,004.0**	**100.0**	**(4.1)**	**(3.1)**

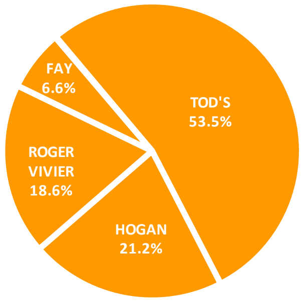


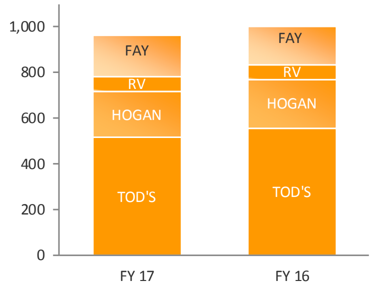


constant exchange rates registered by the DOS already existing as of January 1st, 2016, is -2.8% in the fiscal year. As of December 31st, 2017 the Group's distribution network was composed by 275 DOS and 112 franchised stores, compared to 272 DOS and 107 franchised stores as of December 31st, 2016. Revenues to third parties totalled 342.2 million euros; the 8.4% decrease from FY 2016 is due to the weakness experienced by some important markets, such as Italy and USA.

TOD'S sales totalled 515.7 million euros in FY 2017; the 7.7% decrease, as compared to the previous year (6.6% at constant exchange rate), is mainly due to the trend of shoes, also penalized by some delays in deliveries, which occurred at the start of the season, and were not recovered. HOGAN revenues were 203.9 million euros; the decrease is mainly due to the weakness of the Italian market, while the results abroad are positive, on both the retail and the wholesale channels. ROGER VIVIER totalled 179.3 million euros in sales, up 7.8% from FY 2016 (9.7% at constant exchange rate). Positive results in all the main markets. Finally, revenues of the FAY brand were 63.5 million euros, up 1.4% from FY 2016. The brand registered positive results both in Italy and in the European countries.

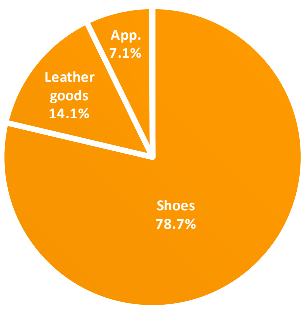
(euro mn)	FY 17	%	FY 16	%	% current exch. rates	% constant exch. rates
TOD'S	515.7	53.5	559.0	55.7	(7.7)	(6.6)
HOGAN	203.9	21.2	214.2	21.3	(4.8)	(4.5)
ROGER VIVIER	179.3	18.6	166.3	16.6	7.8	9.7
FAY	63.5	6.6	62.6	6.2	1.4	1.4
Other	0.9	0.1	1.9	0.2	n.s.	n.s.
Total	**963.3**	**100.0**	**1,004.0**	**100.0**	**(4.1)**	**(3.1)**

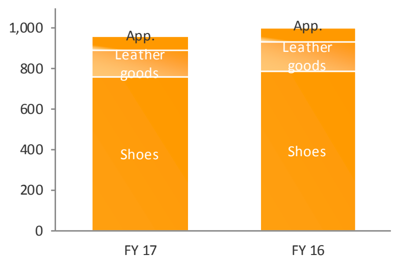




Revenues from shoes were 757.9 million euros, down 3.2% at constant exchange rate from FY 2016, but showing a visible improvement in the fourth quarter. Due to its greater exposure to the wholesale, this category is also the most affected by the weakness of this channel (-4.2% at current exchange rate).

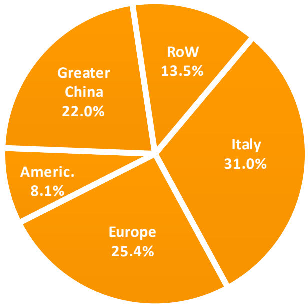
(euro mn)	FY 17	%	FY 16	%	% current exch. rates	% constant exch. rates
Shoes	757.9	78.7	791.3	78.8	(4.2)	(3.2)
Leather goods	135.8	14.1	142.5	14.2	(4.7)	(3.6)
Apparel	68.7	7.1	68.3	6.8	0.5	0.6
Other	0.9	0.1	1.9	0.2	n.s.	n.s.
Total	**963.3**	**100.0**	**1,004.0**	**100.0**	**(4.1)**	**(3.1)**

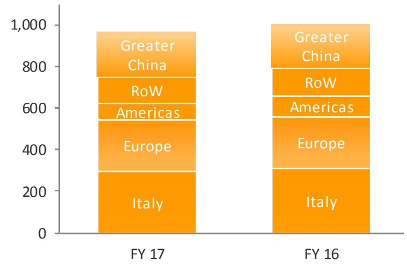




Sales of leather goods and accessories totalled 135.8 million euros, down 3.6% from FY 2016 at constant exchange rate (-4.7% at current exchange rate). Finally, sales of apparel were 68.7 million euros, broadly in line with 2016 and reflect FAY's performance. In FY 2017, domestic sales were 298.2 million euros; the 4.3% decrease from FY 2016 is mainly due to the weakness of the wholesale channel, mainly in secondary cities. In the rest of Europe, the Group's revenues totalled 245.1 million euros, broadly in line with FY 2016 if compared at constant exchange rate. The retail network posted positive results, while the wholesale channel was weak. In the Americas sales amounted to 78 million euros, down 19.3% from FY 2016. The Group's revenues in Greater China totalled 212 million euros, up 3.0% at constant exchange rate from FY 2016. Mainland China, which represents more than half of this region, registered positive results; Hong Kong and Taiwan are still negative, even if showing some timid signs of improvement.

(euro mn)	FY 17	%	FY 16	%	% current exch. rates	% constant exch. rates
Italy	298.2	31.0	311.5	31.0	(4.3)	(4.3)
Europe	245.1	25.4	250.0	24.9	(2.0)	(0.2)
Americas	78.0	8.1	96.7	9.6	(19.3)	(19.1)
Greater China	212.0	22.0	210.3	21.0	0.8	3.0
RoW	130.0	13.5	135.5	13.5	(4.1)	(3.5)
Total	**963.3**	**100.0**	**1,004.0**	**100.0**	**(4.1)**	**(3.1)**





Finally, in the area "Rest of the World" the Group's sales were 130 million euros, down 3.5% at constant exchange rate from FY 2016 (-4.1% at current exchange rate). In the fourth quarter of the year, Japan recorded a strong improvement in results, while the Korean market remains difficult.

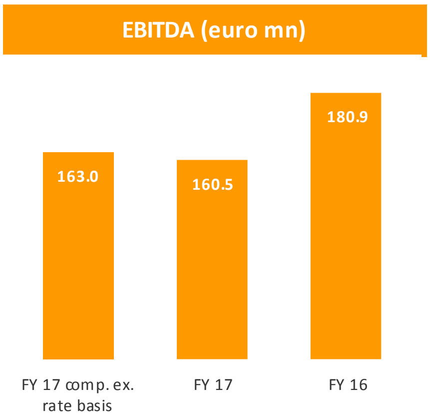
Operating results. In 2017 the Group's EBITDA came to 160.5 million euros (180.9 million euros in 2016), accounting for 16.7% of consolidated revenues (18% in 2016).

The exchange rates being equal, or with the application of average cross rates from the previous period, EBITDA would come to about 163 million euros.

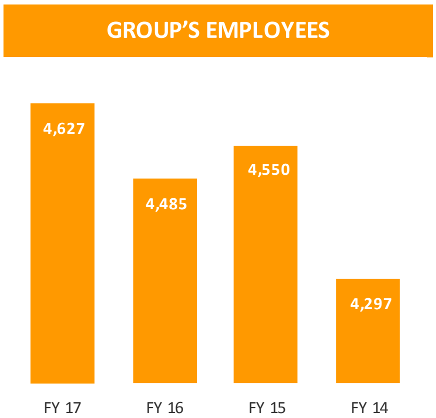
A slight improvement was recorded at gross margin level, which confirmed the excellent positioning of the Group's brands in the "high-end" luxury segment and the ability to achieve revenues in product segments and geographical areas that generate higher profit margins. This result, together with the positive effects of the plan to optimise structure costs and to improve processes, allowed the mitigation of the impact on EBITDA arising from a normal increase in operating costs in support of growth strategies.

Furthermore, the effects on EBITDA for the period were also positive, which arose from the property operations connected with some major relocations of DOSs within the framework of the strengthening of the DOS network.

Costs for leases and rentals (locations and royalties payable) came to 118.2 million euros, showing a slight increase compared to 2016 (117.4 million euros). The impact on revenues passed from 11.7% in 2016 to 12.3% of the current period. The increase is due to the rise of rental costs in the direct distribution network, which was the obvious consequence of the expansion of the DOS network (the number of DOS reported an increase of 16 during the period from December 2016 to December 2017).

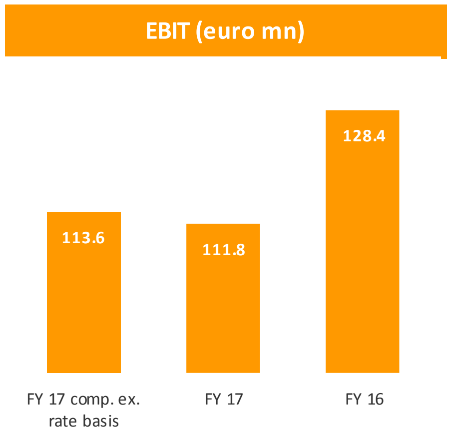


Increased the cost incurred for salaries payable to the personnel working for the Group coming to 191.5 million euros in 2017 against 186.2 million euros in 2016. The increase in the expense was mainly due to the number of staff members as a result of the expansion of the direct distribution network, the strengthening of Group production capacity and other costs related to changes occurred among top managers at a corporate level. At December 31st, 2017 the number of employees are 4,627 showing an increase of 142 people with respect to December 31st, 2016, accounting for 19.9% of the Group revenues in 2017 against 18.5% in 2016.

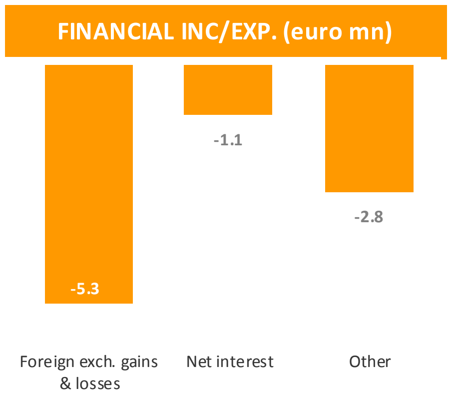


in 2017 amortisation/depreciation and write-downs of fixed assets amounted to 46.7 million euros against 50.6 million euros in 2016, and included write-downs for impairment of fixed intangible and tangible assets for 2.5 million euros (4.4 million in 2016 euros). At December 31st, 2017 amortisation and depreciation accounted for 4.6% of the Group revenues, substantially in line with the value posted in the previous year (4.6%).

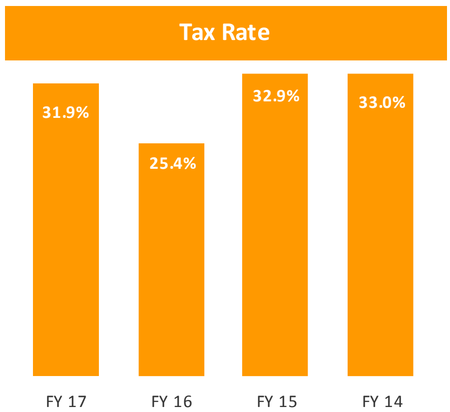
Net of additional provisions totalling 1.8 million euros, EBIT for the period came to 111.8 million euros (128.4 million euros in 2016), showing a reduction of 16.6 million euros and accounting for 11.6% of consolidated sales (12.8% in 2016). The exchange rates being equal, EBIT or the period would come to 113.6 euros million.



The balance of financial income and costs, which posted a negative value of 9.2 million euros, was affected by the performance of cross rates of some currencies with which the Group operates. Interest expense on loans decreased from 2.7 million euros in 2016 to 1.6 million euros in 2017 thanks to the step-by-step reduction of the indebtedness versus external banks.

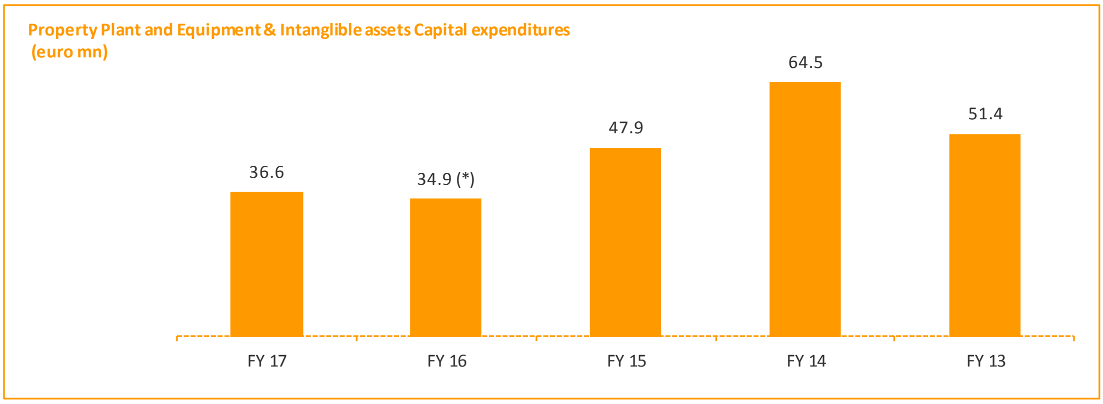


Income taxes for the year amounted to 32.5 million euros, including the effects of deferred taxes, at a tax rate that comes to 31.9%, showing an increase compared to 25.4% in 2016, which was mainly due to the impact of the US tax reform and the prudential write off of some deferred tax assets on previous year fiscal losses related to some subsidiaries. Previous year tax rate also benefited of the “patent box” contribution related to two fiscal years (2015 and 2016).



At December 31st, 2017 the 2017 consolidated profit, equal to 69.4 million euros (against 85.8 million euros in 2016), accounted for 7.2% of consolidated revenues against 8.5% in 2016.

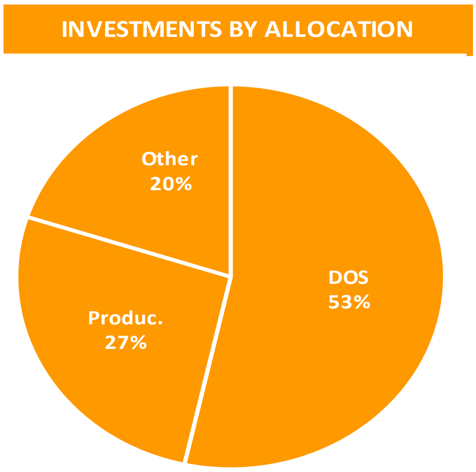
Capital expenditures. Capital expenditures in the 2017 financial year totalled 36.6 million euros while in the previous year they were 34.9 million euros (net of investments for the acquisition of the ROGER VIVIER brand, equal to 415 million euros).



(*) It doesn't include the investment for ROGER VIVIER brand acquisition, for 415 million euros.

The Group invested an amount of about 19.6 million euros (against 18.6 million euros at December 31st, 2016) in the setting up of new DOS, including the *boutique* TOD'S in Vienna (Austria) and Boston (USA), and in the renovations and relocations of existing stores.

Capital expenditures for production amount to 9.7 million euros, among which it is highlighted, for relevance, the building up of the new plant in Arquata del Tronto.



The remaining amount of investments for the year was allocated to the normal process of refurbishment of facilities and upgrading of industrial equipment (mainly forms, dies and moulds), as well as to the development of business management systems (software) among which the ones related to the digital channel.

Net financial position and cash flow. At December 31st, 2017 the net financial position posted a positive value of 9.3 million euros (it was negative for 35.4 million euros at December 31st, 2016), and it is formed by Cash and cash equivalents (cash and bank deposits) for 221.6 million euros (227.7 million euros at December 31st, 2016) and financial liabilities for 212.3 million euros (263.1 million euros at December 31st, 2016), of which 147.6 million euros as non-current financial liabilities (197.1 million euros at December 31st, 2016).

euro 000's Net financial position	12.31.17	12.31.16	Change
Current financial assets			
Cash and cash equivalents	221,609	227,706	(6,097)
Cash	**221,609**	**227,706**	**(6,097)**
Current financial liabilities			
Current account overdraft	(15,910)	(15,714)	(196)
Current share of medium-long term financing	(48,743)	(50,234)	1,491
Current financial liabilities	**(64,654)**	**(65,948)**	**1,295**
Current net financial position	**156,956**	**161,758**	**(4,802)**
Non-current financial liabilities			
Financing	(147,617)	(197,139)	49,523
Non-current financial liabilities	**(147,617)**	**(197,139)**	**49,523**
Net financial position	**9,339**	**(35,381)**	**44,720**

Gross of distributed dividends the NFP at December 31st, 2017 would amount to 65.6 million euros (+101 million euros compared to the value posted at the beginning of the year).

euro 000's Statement of cash flows	Year 17	Year 16
Net Cash and cash equivalents at the beginning of the period	**211,993**	**204,063**
Cash flows from operating activities	165,764	212,587
Interests and taxes collected/(paid)	(17,569)	(62,903)
Net cash flows from operating activities	**148,195**	**149,684**
Cash flow generated (used) in investing activities	**(35,868)**	**(466,478)**
Cash flow generated (used) in financing activities	**(105,972)**	**318,273**
Translation differences	(12,648)	6,450
Net Cash and cash equivalents at the end of the period	**205,699**	**211,993**

Operating activities during the year generated cash of 165.8 million euros (against 212.6 million euros in 2016). In order to get a full comparability of 2017 results with previous year results, note that cash flows from operating activities of the year 2016, net of non-recurring transactions, amounted to 187.6 million euros. Net of taxes and interest expense, Cash Flows from operating activities amounted to 148.2 million euros (149.7 million euros at December 31st, 2016).

Cash flows from investing activities represent cash flows invested in fixed assets. Cash flows from financing activities are related to both the reimbursement of outstanding loans and distribution of dividends for 56.3 million of euros.

Report on operations of parent company TOD'S S.p.A.

The performances recorded by the Company during the year just ended were affected by the market trends commented on above. Sales during the year came to 662.6 million eurso, recording an increase of 4.0% compared to 637.2 million euros in 2016. However, revenues for the previous period included the recognition of a non-recurring item concerning a provision for returns, for 26.3 million euros, relating to some products stocked at the Company's subsidiaries, as a result of the redefinition of distribution strategies. Without considering the effects of this non-recurring transaction, revenues for the 2017 financial year would be substantially in line with those achieved in the previous year. Based on constant exchange-rates, i.e. using the same average exchange rates prevailing in 2016, revenues would be instead equal to 665.3 million euros.

EBITDA and EBIT for the year amounted to 132.4 and 112.7 million euros, accounting for 20% and 17%, respectively. Based on constant exchange rates, gross and net operating margins would be equal to 134.5 and Euro 114.8 million euros, respectively, accounting for 20.2% and 17.3% of revenues. Net profit for the year amounted to 85 million euros.

euro 000's Main economic indicators	Year 17	Year 16	Change	%
Sales revenues	662,576	637,231	25,345	4.0
EBITDA	132,393	120,279	12,114	10.1
Deprec., amort., write-downs and advances	(19,647)	(20,324)	677	(3.3)
EBIT	112,746	99,955	12,791	12.8
Profit before taxes	111,866	89,477	22,389	25.0
Profit for the year	84,977	64,180	20,796	32.4
Foreign exchange impact on revenues	2,749			
Adjusted sales revenues	665,324	637,231	28,093	4.4
Impact on operating cost	(655)			
Adjusted EBITDA	134,487	120,279	14,208	11.8
Adjusted EBIT	114,792	99,955	14,837	14.8
EBITDA %	20.0	18.9		
EBIT %	17.0	15.7		
Adjusted EBITDA %	20.2	18.9		
Adjusted EBIT %	17.3	15.7		

In order to get a full comparability of 2017 results with previous year results, note that EBITDA and EBIT at December 31st, 2016, net of non-recurring transactions, were 131.1 and 110.7 million euros respectively for a ratio on sales revenue of 20.6% and 17.4%. Note that non-recurring transactions didn't occur during the year 2017.

euro 000's Main Balance Sheet indicators	12.31.17	12.31.16	Change
Net working capital (*)	189,840	207,973	(18,133)
Intangible and tangible fixes assets	258,643	261,428	(2,785)
Other current assets/liabilities	533,675	506,480	27,194
Invested capital	**982,158**	**975,882**	**6,276**
Net financial position	(73,945)	(96,912)	22,967
Shareholders' equity	**908,213**	**878,970**	**29,243**
Capital expenditures	15,687	13,250	2,437
Net operating cash flows	94,490	143,846	(49,355)
Cash flows generated/(used)	12,813	2,294	10,519

(*) Trade receivables + inventories - trade payables

Revenues. In the following table a breakdown of revenues, compared with the previous year, not including the non-recurring operations of the period for a better comparability:

euro 000's	FY 17	%	FY 16	%	Change	%
Brand						
TOD'S	325,709	49.2	332,494	50.1	(6,785)	(2.0)
HOGAN	173,416	26.2	180,478	27.2	(7,062)	(3.9)
FAY	57,675	8.7	56,431	8.5	1,244	2.2
ROGER VIVIER	100,876	15.2	88,786	13.4	12,089	13.6
Other	4,901	0.7	5,321	0.8	(420)	(7.9)
Total	**662,576**	**100.0**	**663,511**	**100.0**	**(935)**	**(0.1)**
Product						
Shoes	506,876	76.5	512,489	77.2	(5,612)	(1.1)
Leather goods	88,403	13.3	85,106	12.8	3,298	3.9
Apparel	62,395	9.4	60,610	9.1	1,785	2.9
Other	4,901	0.7	5,307	0.8	(406)	(7.6)
Total	**662,576**	**100.0**	**663,511**	**100.0**	**(935)**	**(0.1)**
Region						
Italy	253,496	38.3	271,278	40.9	(17,782)	(6.6)
Europe	181,206	27.3	187,869	28.3	(6,663)	(3.5)
Americas	52,568	7.9	55,123	8.3	(2,555)	(4.6)
Greater China	130,755	19.7	104,557	15.8	26,198	25.1
RoW	44,550	6.7	44,683	6.7	(134)	(0.3)
Total	**662,576**	**100.0**	**663,511**	**100.0**	**(935)**	**(0.1)**

In 2017 revenues from TOD'S brand came to 325.7 million euros, showing a decrease of 2%; the Mainland China market recorded a good performance, in particular in the DOS channel. The HOGAN brand recorded revenues of 173.4 million euros, with a 3.9% difference compared to 2016, which was mainly linked to the weakness of the Italian market. The FAY brand recorded sales of 57.7 million euros, up by 2.2% compared to 2016 and positive results both in Italy and in European countries. The ROGER VIVIER brand achieved revenues of 100.9 million euros (88.8 million euros in 2016), showing an increase of 13.6% compared to 2016 and confirming its appeal to international customers.

As regards product categories, sales data confirm the Company's leading position in the core business of footwear, whose revenues amounted to 506.9 million euros (512.5 million euros at December 31st, 2016), accounting for 76.5% of turnover, in 2017. Revenues from leather goods and accessories, which amounted to 88.4 million euros (85.1 million euros at December 31st, 2016), recorded an increase of 3.9% compared to the previous year. Sales from apparel came to 62.4 million euros (60.6 million euros at December 31st, 2016); the performance was the same as that of the FAY brand.

Revenues from domestic market were affected by the weakness of the wholesale channel, above all in the cities of the province. In Europe, revenues amounted to 181.2 million euros, recording a change of 3.5% compared to 187.9 million euros in 2016. Revenues in American markets reported a fall of 4.6% compared to 2016, while in the Greater China region there was a considerable increase in revenues from sales (+25.1% compared to 2016), which was positively affected by the performances recorded in the Mainland China region. The "Rest of the world" area recorded revenues of 44.5 million euros (44.7 million euros in 2016), substantially in line with the value posted in the previous year.

Operating results. In 2017 EBITDA amounted to 132.4 million euros, accounting for 20% of sales, while the previous year EBITDA was 120.3 million euros, showing a margin of 18.9% (20.6% net of non-recurring transactions).

The exchange rates trend had a negative impact; based on constant exchange rates, i.e. using the average exchange rates applied in 2016, EBITDA would come, in fact, to 134.5 million, accounting for 20.2% of revenues.

Personnel costs amounted to 86.8 million euros (83 million euros in 2016), accounting for a percentage of revenues from sales of 13.1% in line with the previous year when it was 13%.

In 2017 amortisation and depreciation amounted to 17.6 million euros (18.7 million euros in 2016), accounting for 2.7% of revenues (2.9% in 2016). Net of provisions of 2 million euros, EBIT for the period from January to December 2017 came to112.7 million euros. At December 31st EBIT amounted to 17% of the Company's sales. Based on constant exchange rates this ratio would come to 114.8 million euros, accounting for 17.3% of turnover.

In 2016 operating results had been equal to 100 million euros, accounting for 15.7% of revenues (17.4% net of non-recurring transactions).

Financial income and costs for the year showed a negative balance for 8.2 million euros, which was affected by the performance of cross rates of some currencies with which the Company operates and it includes, for about 1.1 million euros, interest expenses on outstanding loans, decreased in respect of 2016 (1.9 million euros) thanks to the reduction of the indebtedness versus banks.

The income from equity investments shows a positive result for 7.3 million euros, mainly thanks to dividend received for 8.1 million euros and the write off of equity investments for 0.5 million euros.

After considering a tax effect, for current and deferred income tax, totalling 26.9 million euros (38.3 million euros in 2016), at a tax rate of 24% against 28.3% in 2016, the net result for the period came to 85 million euros, against 64.2 million euros in 2016. The tax rate for the year benefited from the reduction of current applicable rate, in addition to the effect of collected dividends. At December 31st, 2017 net profit accounted for 12.8% of revenues.

Capital expenditures. Capital expenditures made in the 2017 financial year amounted to 15.7 million euros, as against the 13.3 million euros in 2016, mainly invested in the building up of the new plant in Arquata del Tronto further to the normal processes of modernisation of facilities and industrial equipment. In particular about 4.1 million euros have been invested for the purchase of additional industrial equipment for the creation of the collections (lasts and moulds). A significant quota of investments, 2.5 million euros in the year, was also allocated to the development of the company information systems.

Net financial position (NFP). At December 31st, 2017, the net financial position was negative for 73.9 million euros (against a positive value of 96.9 million at December 31st, 2016).

Other current financial assets are related to a loan granted to subsidiary Roger Vivier S.p.A., partially reimbursed in advance on January 2017 (for 13 million euros) and on December 2017 (for 23 million euros).

At December 31st, 2017 the financial debt included the financial liability relating to the syndicated loan agreement entered into with Mediobanca and Crédit Agricole in 2014.

euro 000's Net financial position	12.31.17	12.31.16	Change
Current financial assets			
Cash and cash equivalents	100,802	87,989	12,813
Other current financial assets	9,000	45,000	(36,000)
Current financial assets	**109,802**	**132,989**	**(23,187)**
Current financial liabilities			
Current account overdraft			
Current share of medium-long term financing	(46,176)	(46,289)	114
Current financial liabilities	**(46,176)**	**(46,289)**	**114**
Current net financial position	**63,626**	**86,700**	**(23,074)**
Non-current financial liabilities			
Medium-long term financing	(137,572)	(183,612)	46,040
Non-current financial liabilities	**(137,572)**	**(183,612)**	**46,040**
Net financial position	**(73,945)**	**(96,912)**	**22,967**

Operating activities during the year generated cash for 118.4 million (against 192.6 million euros in 2016). In order to get a full comparability of 2017 results with previous year results, note that cash flows from operating activities of 2016, net of non-recurring transactions, were 167.6 million euros.

Net of paid taxes and interest expense, net Cash Flows from operating activities amounted to 94.5 million euros (143.8 million euros at December 31st, 2016). Cash flows from investing activities, amounted to 15.2 million euros and represent cash flows invested in fixed assets, while it was 418.4 million euros in 2016 including the capital increase that involved subsidiary Roger Vivier S.p.A., which was subscribed and paid by TOD'S S.p.A. within the acquisition of the ROGER VIVIER brand on the part of the subsidiary itself. Cash flows used for financing activities amounted to -66.5 million euros (cash flows generated from financing activities were 276.9 million euros in 2016) and they are mainly related to the reimbursement of the outstanding loans and distribution of dividends to the shareholders.

euro 000's Statement of cash flows	FY 17	FY 16
Net Cash and cash equivalents at the beginning of the period	**87,989**	**85,696**
Cash flows from operating activities	118,375	192,643
Interests and taxes collected/(paid)	(23,884)	(48,797)
Net cash flows from operating activities	**94,490**	**143,846**
Cash flow generated (used) in investing activities	**(15,169)**	**(418,416)**
Cash flow generated (used) in financing activities	**(66,509)**	**276,864**
Net Cash and cash equivalents at the end of the period	**100,802**	**87,989**

Other Information

Statement pursuant to art. 2.6.2 paragraph 8 of the regulations for markets organized and managed by Borsa Italiana S.p.A. In respect of Art. 36 of CONSOB Regulation no. 16191 of October 29th, 2007 on conditions for the listing of companies that control entities formed or governed under the laws of countries outside the European Union that are of material significance to the financial statements, we report that 10 of the company's direct or indirect subsidiaries fall under these provisions (Tod's Korea Inc., Tod's Shanghai Trading Co. Ltd, Roger Vivier Shanghai Trading Co. Ltd, Tod's Hong Kong Ltd, Roger Vivier Hong Kong Ltd., Tod's Japan KK, Deva Inc., An. Del. USA Inc. Flor Del. USA Inc., Cal. Del. Usa Inc.), that suitable procedures have been adopted to ensure total compliance with said rules, and that the conditions stated in Art. 36 have been satisfied.

Disclosure pursuant to Consob Resolution no. 17221 of March 12th, 2010 (Related Parties Regulation). In 2017 the Group did not conclude highly significant transactions with related parties or related party transactions that had a material impact on the assets, liabilities or net income of the Group, and there were no modifications or developments in the transactions described in the 2016 Annual Report that had the same effects.

All the information regarding existing relations with related parties in 2017 are set out in the supplementary notes.

Management and coordination activities. Although TOD'S S.p.A. is subject to the control (pursuant to Article 93 of Legislative Decree 58/1998) of DI.VI. Finanziaria di Diego Della Valle & C. S.r.l., neither this latter company or any other party has dictated policy or interfered in the management of TOD'S S.p.A. (or any of the subsidiaries of TOD'S S.p.A.). Indeed, management of the issuer and its subsidiaries was not subject to any influence by third parties outside the TOD's Group.

TOD'S S.p.A. is not subject to management and coordination by the parent company DI.VI. Finanziaria di Diego Della Valle & C. S.r.l. or any other party pursuant to Sections 2497 et seq. Italian Civil Code.

Pursuant to the Corporate Governance Code, transactions that have a particularly significant impact on TOD's S.p.A. strategy, operations, assets, liabilities, and financial position are subject to exclusive review and approval by the Board of Directors of the issuer TOD'S S.p.A. Its members include independent directors without executive responsibilities at the company, in accordance with the rules set out in Article 3 of the Corporate Governance Code.

The expertise and authority of the independent directors without executive responsibilities and their material impact on decisions taken by the Board of Directors represent a further guarantee that all decisions by the Board of Directors are taken exclusively on behalf of TOD'S S.p.A. without being influenced by instructions or interference by third parties representing interests opposed to the Company's.

All subsidiaries of TOD'S S.p.A. are subject to management and coordination by the issuer. This activity consists in defining the general strategic policies for the Group, the internal control and risk management system, and the elaboration of general policies for management of the most important operating drivers (human, financial, productive, marketing and communication resources), without impairing the complete managerial and operating autonomy of the subsidiaries.

Research and development. Given the particular nature of the Group's production, research and development activity consists of continuous technical/stylistic revision of models and constant improvement of the materials used to realise the product.

Since this activity is exclusively ordinary, the associated costs are charged entirely to income in the year that they are incurred, and thus recognised as normal production costs.

Research and development costs, as defined above, have assumed major importance due to operating realisation of projects connected with expansion of the existing product line with new types of merchandise that complement current ones. These will increase the number of brands offered and stimulate increased sales to end customers.

Reconciliation of the result for the period and net equity of the Group with the analogous values of the Parent Company. The following table illustrates the reconciliation of the result for the period and net equity of the Group with the analogous values of the Parent Company, in accordance with CONSOB memorandum DEM/6064293 dated July 28th, 2006.

euro 000's	12.31.17		12.31.16	
	Net Profit	Share equity	Net Profit	Share equity
Parent Company	**84,977**	**908,213**	**64,180**	**878,970**
Difference between book value of consolidated Companies and net equity method valutation	(1,360)	244,388	1,063	280,095
Goodwill from Business combination Parent Company		(13,685)		(13,685)
Goodwill from Business combination Group		12,285		12,232
Others (*)	(12,609)	(64,929)	21,049	(70,401)
Minority interest	(1,645)	880	(524)	3,269
Group	**69,362**	**1,087,152**	**85,768**	**1,090,481**

(*) Mainly dividends and intercompany profits

Information on Share Capital. At December 31st, 2017 the Company's share capital was divided into 33,093,539 shares, with a par value of Euro 2 each, for a total nominal value of Euro 66,187,078, unchanged respect to 2016.

Own shares and shares or quotas of controlling companies. As of December 31st, 2017 the Company did not possess any of its own share nor did it possess any shares or quotas of the controlling companies, neither since the date on which the shares of the Company were listed on the Milan Stock Exchange, the Company has not been a party to any transactions with reference to its own shares.

Significant events occurred after the end of the period

In order to raise liquid funds necessary to finance any possible requirements arising from core commercial operations and general business needs, the Parent Company entered into two loan agreements with two major banks after the reporting date. On January 26th, 2018 a loan agreement was entered into with Banco BPM S.p.A., which granted a 4-year revolving credit facility, in a maximum amount of 100 million euros, which had not yet been used at the reporting date. On January 29th, 2018 a loan agreement was entered into with Intesa Sanpaolo S.p.A., in an amount of 100 million euros, which bears no charges and interest, to be repaid in a single instalment on January 29th, 2019.

Business outlook

The results of the year were in line with expectations and the net financial position came back to positive amounts thanks to a positive cash generation achieved in connection with both an efficient management of net working capital and a rationalization of fixed costs.

Very good is the feedback gathered by all the brands during the presentation of the collections of the next Autumn / Winter which confirm the approval of the market for the creative evolution in the interpretation of the Group iconic products. These positive signs, in addition to the expected results from business strategies, lead to believe that the Group is on the right way to catch the opportunities offered by the market and get back to the path of growth that has always characterized its management.

Approval of Financial Statement and proposal for the allocation of the profit for the period

The consolidated financial statements of the TOD'S Group and the separate financial statements of TOD'S S.p.A. were approved today by the Board of Directors.

It is proposed to the shareholders meeting to approve the separate financial statements of TOD'S S.p.A. and the following allocation of the 2017 Company's profit, which amounts to 84,976,553.79 euro:

i. 37,951,983.78 euros to the extraordinary reserve;

ii. 46,330,954.60 euros, to be distributed to shareholders in the form of a dividend of 1.4 euros per share for each of the outstanding 33,093,539 shares;

iii. 693,615.41 euros to the specific reserve for promoting territorial solidarity projects.

Milan, March 13th, 2018

The Chairman of the Board of Directors

Diego Della Valle

Consolidated Non-Financial Statement - FY 2017 pursuant to articles 3 and 4 of Italian Legislative Decree no. 254 of 2016

Letter to stakeholders

Last year brought many new developments and challenges that helped to make our Group even stronger and more cohesive. However, in the current changing environment, the main challenge is to continue to grow and continually improve, while maintaining a fair, constant and transparent relationship with all our stakeholders. In this spirit, and in accordance with regulations established by Legislative Decree no. 254 of 2016 regarding non-financial information, we have decided to proceed with one of the most significant developments of 2017, namely our decision to work towards social accountability.

With our first Non-Financial Statement, relating to the 2017 financial year, we intend to demonstrate to all our stakeholders our propensity towards sustainable action, an inclination that has been an integral part of our Group from the outset, distinguishing its work.

Our history has always been based on the values of tradition and innovation, ethics, solidarity and Italian spirit, core principles that have allowed our Group to grow in a transparent, mindful manner with an emphasis on continuous improvement.

Over the years, we have applied our founding values to numerous projects and initiatives of national and international scope for the benefit of our employees, our associates, the local area, the community and the environment.

We are proud of the significant milestones that were achieved in 2017: first of all, we made sustainability part of our corporate governance by voluntarily assigning the Independent Directors Committee with the further role of supervising sustainability issues related to the company’s business and to its interactions with all its stakeholders.

Furthermore, this year we continued our old projects and launched new initiatives to benefit our stakeholders, conscious of our role in the national and international context and of our desire to work to promote the well-being of all those who interface with our Group.

We are aware that what we have done so far is just the beginning of a journey of continuous development and improvement: we are embracing this challenge with great pleasure and commitment in the knowledge that we can contribute, in our own small way, to building a better and increasingly sustainable future.

Methodological note

TOD'S Group's (hereinafter also the "Group" or "TOD'S") first Non-Financial Statement is a tool to transparently and articulately describe the economic, social and environmental results achieved by the Group and demonstrates the Group's commitment to sustainable development, with the aim of creating value not only for itself, but also for its stakeholders.

This document also responds to the obligation to report non-financial information set out in Legislative Decree no. 254 of 30 December 2016 (hereinafter "Decree 254"), which TOD'S S.p.A. is subject to.

This Non-Financial Statement relates to the 2017 financial year (from 1 January to 31 December) and was prepared in accordance with articles 3 and 4 of Decree 254 and with the GRI Sustainability Reporting Standards defined in 2016 by the GRI - Global Reporting Initiative, according to the "In accordance - Core" option. This document also follows the "Guidelines on non-financial reporting" (2017/C 215/01) issued by the European Commission on 26 June 2017.

The present document aims to describe to its stakeholders the management model and policies practised by the Group in relation to sustainability, describing the most significant results achieved in the financial year in question, to the extent necessary to ensure understanding of the company's business, performance, results and impact, covering environmental and social issues and issues relating to staff, to respecting human rights and to the fight against active and passive corruption, which are relevant considering the company's activities and characteristics and stakeholders' expectations, as illustrated in the materiality analysis contained in this document.

The process of collecting data and information to draft this Non-Financial Statement was managed in collaboration with TOD'S Group's corporate functions, with the aim of providing a clear and precise indication of the information considered significant for the stakeholders according to the principles of accuracy, balance, clarity, comparability, reliability and timeliness set out in the GRI guidelines.

The scope of the data and information reported in this Statement is limited to the fully consolidated companies in TOD'S Group as at 31 December 2017, which are grouped into the following regions: Italy, Europe, Greater China, Americas and Rest of the World[1].

Any specifications and exceptions to the reporting scope[2] are duly noted in the relevant sections. This document provides adequate data and information to the extent necessary to ensure understanding of the Group's business, performance, results and impact.

[1] For more information on the fully consolidated companies in TOD'S Group, please refer to the specific section of the Group's Annual Financial Report for 2017.

[2] In cases of limitations, the scope coverage was calculated as a percentage of the total number of Group employees at the end of the reference year.

With reference to what is required by article 3, paragraph 2 of Decree 254, some information is not included in this document because it is deemed not to be relevant to the provision of a non-financial report to the extent necessary to ensure understanding of the Group's business, performance, results and impact.

Where available, data relating to previous years is shown for comparative purposes only, in order to allow an assessment of the performance of the Group's activities over a longer period of time. Moreover, the chapters of the Non-Financial Statement report quantitative information for which estimates have been used.

Finally, to facilitate reading of the document, it should be noted that the following terms have been used:

- "The Parent Company" and "The Company" with reference to TOD'S S.p.A.;
- "The Group" with reference to TOD'S Group (Parent Company and fully consolidated companies);
- "Italy" with reference to the area that is home to the business of TOD'S S.p.A., Del.Com. S.r.l., Del. Pav. S.r.l., Filangieri 29 S.r.l., Re.Se.Del. S.r.l. and Roger Vivier S.p.A.

Envisaging a path of continuous improvement related to sustainability aspects, the Group has outlined a development plan for project activities over the 2018-2020 three-year period in the following areas:

- development of a sustainability policy and plan, setting out the Group's principles, goals and commitments regarding the relevant issues, by the end of 2018;
- definition of the supplier code of conduct, based on international conventions and standards (ILO, UN) and sharing with the main categories of suppliers (contractors, external workshops and relevant suppliers of raw materials and components) by 2019;
- planning and conducting of third-party production chain audits focused on environmental and social issues, human rights, health and safety, and ethical principles, by the end of 2019;
- design and implementation of a corporate climate survey, by 2018;
- organisation of workshops to spread sustainability culture within the Group, by 2018;
- formalisation of policies regarding personnel management issues by the end of 2019 for Italian companies and subsequent extension to the Group's other companies, in order to standardise actions and behaviour in the various regions in which the Group operates;
- formalisation of the Group's environmental policy by the end of 2019;
- start of the implementation of the ISO 14001 environmental management system, by 2019;
- start of the implementation of the OHSAS 18001 health and safety management system, by 2020;

- formalisation of the Group's anti-corruption policy by 2018.

This document was approved by the TOD'S S.p.A. Board of Directors on 13 March 2018 and, in accordance with the provisions of Legislative Decree 254 of 2016, was assessed for compliance by independent auditor PriceWaterhouseCoopers S.p.A. and published on the company's website www.todsgroup.com.

To request more information about TOD'S Group's sustainability strategy and the contents of this Non-Financial Statement, please contact the following address: infocsr@todsgroup.com

1. Approach to sustainability

For TOD'S Group, sustainability means conducting its activities with an eye to the future and focusing its business strategy on creating value for stakeholders in the medium and long-term.
The Group's sustainability strategy is geared around three core values that have always been key to its identity:

- **tradition and innovation**, the result of over a century of quality and excellence, based on passion, creativity and the promotion of Made in Italy production, elements that are inseparable from the outstanding quality of the products made by the Group's brands;

- **ethics**, namely the continuous pursuit of honesty, fairness, confidentiality, transparency and reliability in its relationship with all stakeholders;

- **solidarity and Italian spirit**, in other words responsibility towards the community (with a focus on the most vulnerable people, both locally and internationally) and towards the area in which the Group is present (with the aim of enhancing Italy's image throughout the world).

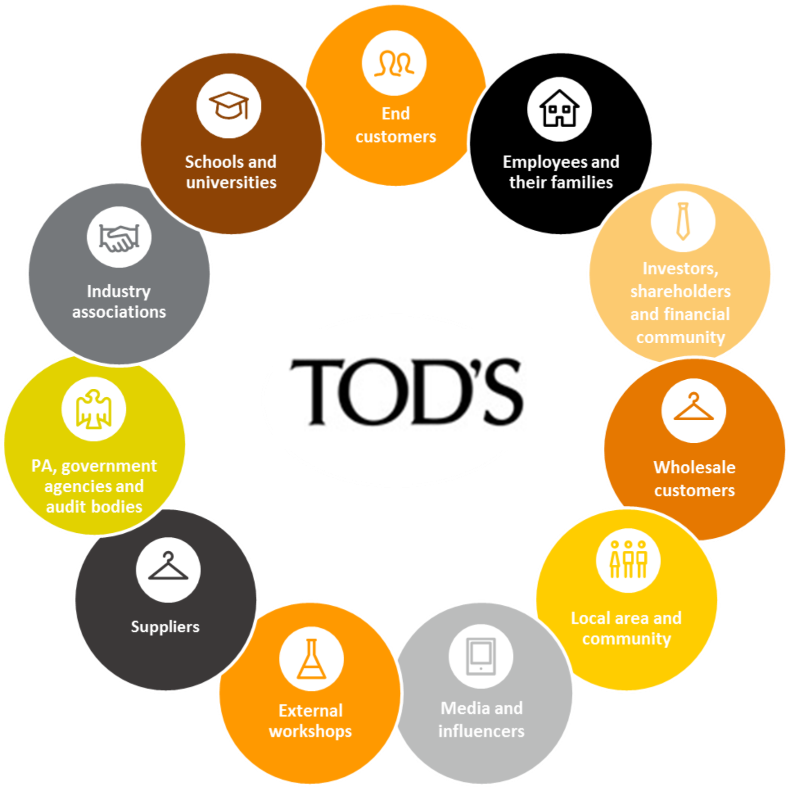
These values are reflected in numerous annual and long-term sustainability initiatives that the Group undertakes, evidencing its commitment to its stakeholders and to the context in which it operates.
Strengthened by its values and aware of its commitment to uphold and continually develop them, the Group has taken steps towards sustainability reporting in order to demonstrate its economic, social and environmental impact on the local area and the community, while constantly monitoring this impact and striving to improve.

1.1 Interaction with stakeholders

Openness, dialogue and constant interaction with internal and external stakeholders are essential to the company's pursuit of its goals. This approach allows the Group not only to understand the needs, interests and expectations of its stakeholders, but also to identify the best ways to generate shared value in the medium and long-term.

Starting from its own characteristics, activities and awareness of its role in the context in which it operates, TOD'S Group has carried out internal analysis, which involved the management, to identify the categories of stakeholders with which it interfaces in the course of its activities. The results of this analysis, integrated and compared with what emerged from a careful benchmark analysis aimed at a mapping current trends, including among its main competitors, and national and international best practices, led to the identification of 11 categories of stakeholders that can influence or be influenced by the Group's activities.

The map of TOD'S Group stakeholders



The Group's approach to its stakeholders is aimed at implementing various kinds of dialogue and involvement initiatives that take advantage of the Group's many interaction channels.

Main initiatives for dialogue with stakeholders

Stakeholder categories	Main dialogue and involvement initiatives
End customers	• Different sales ceremony for each of the Group's brands • Direct interaction with sales staff in the stores • E-commerce digital sales channel • Telephone and e-mail contact • Option to customise products • Gifting strategy • Product catalogue delivery • Customer Care and Customer Delight services • After-sales services • Returns management policies • Creation of special content on social media
Employees and their families	• "Welfare" project (in Italy) • Induction programmes for new employees • Italian Orientation project for new retail employees • Gym services, childcare centre, media library/library and corporate catering in the headquarters • Skills development programmes, tailored to the needs of different professional figures • Linguistic and technical/specialist training programmes • Annual meetings to discuss career development and performance assessments
Investors, shareholders and financial community	• Shareholders' Meeting • Institutional website • Meetings and conference calls with institutional investors and analysts • Industry conferences organised with the main international brokers • Roadshows in the main European financial centres • Investor day • Contact with private shareholders
Wholesale customers	• Meetings in the showrooms • Telephone or e-mail contact to share business performance • Invitations to fashion shows/events/collection presentations
	• 1% of the Group's net profit is allocated to supporting initiatives

Local area and community	targeted at members of the local community who require the most assistance • Collaborations with non-profit organisations to support charitable initiatives for disadvantaged people • National and international collaborations and initiatives aimed at the promotion and protection of the Italian spirit worldwide
Media and influencers	• Institutional website • Institutional communication events and initiatives • Conferences • Press releases • Press days • Interviews with top management • Invitations to fashion shows/events • Collaborations with important bloggers and influencers
External workshops	• Definition and sharing of technical and quality standards • Visits to start the production process and to monitor product quality • Sharing of production progress • Dedicated portal/information systems
Suppliers	• Daily reports • Definition and sharing of technical, stylistic and quality standards • Supplier portal
PA, government agencies and audit bodies	• Special periodic meetings • Collaboration to develop initiatives
Industry associations	• Constant dialogue and meetings • Participation in workgroups • Design and development of joint projects • Participation in trade fairs
Schools and universities	• Support for initiatives to facilitate students' entry into the world of work, including through school/work alternation • Participation in career days and job fairs • Organisation of placements and internships • Sharing of expertise • Collaborations with prestigious universities and design schools • Participation in specialised training courses

1.2. Materiality analysis

In order to identify economic, social and environmental aspects that are relevant to the Group and significantly influence or could influence the assessments and decisions of its stakeholders, in 2017, TOD'S carried out a materiality analysis for the first time, which was translated into the aspects reported in the Non-Financial Statement.

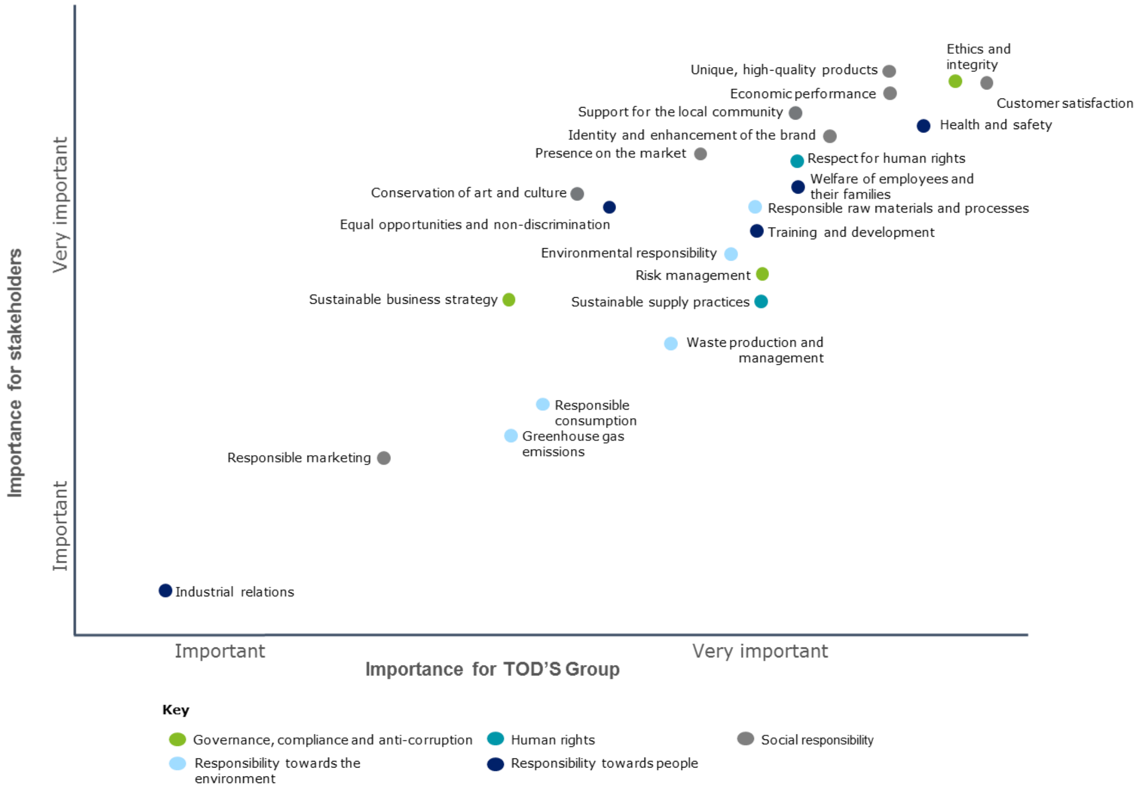
The process of defining the material aspects, which was carried out according to the *GRI Standards Guidelines* published in 2016 by the GRI - Global Reporting Initiative and pursuant to Legislative Decree 254 of 2016 on non-financial information, was divided into several stages, which are presented below.

- **Identification of the relevant issues**: first, all the issues relevant to the Group and its stakeholders were identified. These issues were identified through the analysis of internal documents (Code of Ethics, Annual Financial Report, institutional website, etc.) and external documents (studies and industry publications), as well as through extensive benchmarking analysis of best industry practices at a national and international level.

- **Evaluation of the relevant issues**: in order to prioritise the relevant issues, the Group organised a workshop that involved the participation of the management. The management was asked to evaluate the relevance of the issues from two different perspectives: on the one hand, for the Group and, on the other, for the stakeholders, acting as a representative for their opinions and expectations.

- **Identification of material issues**: drawing on the results of the workshop, it was possible to define TOD'S Group's first materiality matrix, which consists of **23 material themes**, including respect for ethical principles, customer satisfaction and the offer of unique, high-quality products.

TOD'S Group's materiality matrix



The materiality matrix's synthesis of the company's approach and the stakeholders' perspective is a significant tool for defining and developing sustainability priorities and continuing to generate shared value in the medium and long-term.

2.Ethical and responsible business management

Due to its size and the significance of its activities, the TOD'S Group is aware of the significant role it plays in the community in which it operates and is therefore determined to ensure that its activities are conducted to the highest degree of correctness, while building and preserving a relationship of trust with its stakeholders.

For this reason, the Group conforms to the following ethical standards in the pursuit of its objectives:

- compliance with the legislative and regulatory provisions applicable in all the countries in which Group companies operate and observance of the strictest rules, particularly as these apply to relations with the public administration;
- equal and impartial treatment of employees, associates and customers;

- transparency and reliability;
- honesty, correctness and good faith;
- confidentiality;
- the value of persons and human resources.

These principles inspire our business conduct and have been an official part of the **Group Code of Ethics** since 2008.

Observance of the Code of Ethics is an essential condition underlying the correct operation of the companies comprising the Group, the protection of its reliability, reputation and image, enabling us to ensure the increasing satisfaction of our customers.

Therefore, all employees and other individuals who are involved in the operations of TOD'S Group companies are required to know and uphold the principles of the Code of Ethics, each to the extent of their competence.

To ensure correct application of the principles underlying our Code of Ethics, the Group promotes knowledge and dissemination thereof through publication on our institutional website (at the following address http://www.todsgroup.com/system/document_its/32/ original/TodsSpa_Codice _Etico.pdf), through specific information and training actions directed to employees and with specific clauses added to the contracts and agreements which the Company or the Group is a party to.

2.1. Compliance with laws and regulations

To ensure the highest level of correctness and transparency in the pursuit of its business and within the relative company activities, TOD'S S.p.A. adopted its own **Organisation, Management and Control Model** (the "Model" or "Organisational Model") pursuant to the 30 January 2009 resolution of the Board of Directors, in compliance with the requirements of Legislative Decree 231 of 8 June 2001.

In addition to ensuring application of correct Corporate Governance principles and in accordance with the ethical and social values underlying the Code of Ethics, the adoption of the Organisational Model and the Code of Ethics is an effectual instrument with which to regulate the relations of all the employees and associates of the Group with the Group's stakeholders (suppliers, customers, public administration, partners, etc.) - preventing the risk of committing the offences included in Legislative Decree 231/2001.

Through its adoption of the Model, the Company intends to pursue the following objectives:

- render the recipients of the Model aware that by violating the provisions therein, they run the risk of committing potentially illegal acts which could involve the application of penalties against them, while administrative fines could be levied against the Company;
- reiterate that the Company very strongly disapproves of these forms of illegal conduct, since they violate the law and the principles of ethics which it strives to follow in the conduct of its business;
- through monitoring of the areas of operations which are at risk, the Model allows the Company to immediately intervene or prevent the offences from being committed.

The provisions of the Model are binding upon the directors and all persons whose duties involve the representation, administration and management, including the de facto management, of the Company as well as the employees and the external collaborators who are subject to the direction or supervision of the Company's management.

The Model is periodically updated by the Board of Directors and is currently being updated and revised so as to reflect the offences that have been introduced in the meanwhile. Moreover, the two major Italian subsidiaries are currently assessing adoption of the Organisational Model as required by Legislative Decree 231/2001. These companies are: Roger Vivier S.p.A. and Del. Com. S.r.l.

To ensure the correct implementation and observance of the Model and application of the necessary updates, the Company has also established a specific Supervisory Body, appointed by the Board of Directors, with autonomous powers of initiative and control. Currently, this Body has three members: an independent director (who is the Chairman), a member of the Board of Statutory Auditors and the Head of the Internal Audit Department.

Upon completing the verification work for the period of reference, every half year the Body submits a report to the Board of Directors.

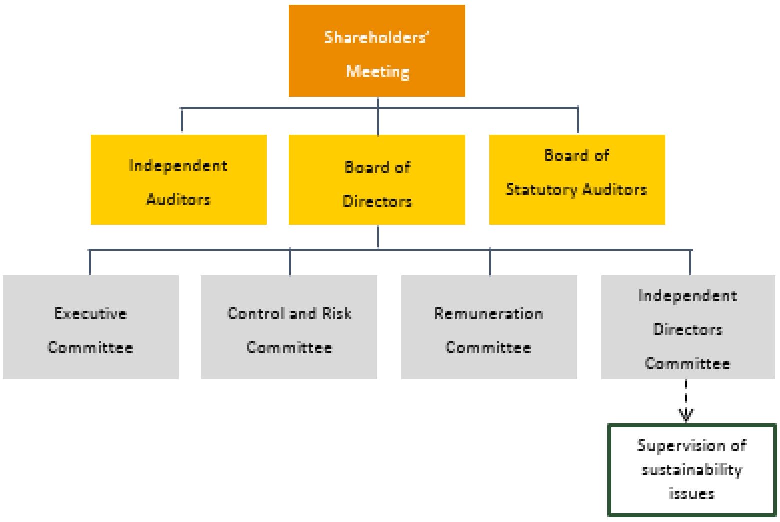
Moreover, the Body assists other departments/functions with supervisory duties to observe the rules of conduct included in the Code of Ethics and the Model adopted pursuant to Legislative Decree 231/2001.

To afford all the recipients the ability to report acts or facts which could be in violation of the Model, the Parent Company TOD'S S.p.A. has set up a confidential communications channel which allows interested parties to contact the Supervisory Body, using an ordinary postal address and an email address.

The Corporate Governance Model

The Parent Company TOD'S S.p.A. has structured its corporate governance system along the lines of the principles and application criteria recommended by the Corporate Governance Code for Listed Companies (the "Code"), distributed by Borsa Italiana.

TOD'S S.p.A. follows the traditional corporate governance system, as follows:



The **Shareholders' Meeting** is legitimated to make resolutions, whether ordinary or extraordinary, on the issues placed under its competence by the Law or the Articles of Association.

The **Board of Directors** is vested with the broadest powers for the ordinary and extraordinary management of the Company, without limitations, and has the power to take all the actions that it considers necessary for implementation or achievement of the corporate purpose, except the powers that the law vests in the Shareholders' Meeting exclusively.

The **Board of Statutory Auditors** is legally responsible for monitoring i) observance of the law and the Articles of Association and compliance with the principles of correct management; ii) the adequacy of the Company's organisational structure insofar as the areas that fall under its competence, the Company's internal audit and risk management system and its administrative and accounting system, as well as the reliability of the latter insofar as correctly representing the operating events; iii) the adequacy of the instructions given by companies belonging to the TOD'S Group in relation to the information to be provided pursuant to disclosure obligations; iv) the procedures for implementation of the corporate governance rules as provided in the Corporate Governance Code for Listed Companies which the Company follows. Legislative Decree 39/2010 also requires the Board of Statutory Auditors to monitor, in particular, the financial disclosure process, the efficacy of the internal control systems, the internal audit system, if applicable, and the risk management system, the legal audit of the annual accounts and the consolidated accounts and to ensure that the auditing firm is independent. Moreover, within the scope of the functions attributed to it by the Law, the Board a of Statutory Auditors shall also monitor observance of the provisions set forth in Legislative Decree 254/2016.

The **Independent Auditors** are appointed by the Shareholders' Meeting to audit the accounts, in compliance with the Articles of Association. In compliance with the Italian Civil Code, an external auditor will perform its audit independently and autonomously and therefore shall not represent either the majority or the minority shareholders. The Shareholders' Meeting has appointed PricewaterhouseCoopers S.p.A. as the external auditor of the separate and consolidated accounts for the years from 2012 to 2020.

The Financial Reporting Manager is also included among the corporate bodies.

The following Committees have been established within the Board of Directors:

- The **Executive Committee**, which ensures that the Company has in place an agile decision-making process. It is vested with all powers which are not restricted to the Board of Directors pursuant to the law, the Articles of Association or the rules of Conduct endorsed by the Company;
- The **Control and Risk Committee** and the **Remuneration Committee**, the role of which is to advise and recommend;
- The **Independent Directors Committee** established in implementation of Consob Regulation 17221/2010 containing the rules regarding Related Party Transactions (the "OPC Regulation"), which is vested with the role and the powers that the OPC Regulation assigns to a committee comprised exclusively of non-executive and independent directors with regard to material transactions with related parties.

The composition of the Board of Directors as at 31 December 2017 is provided below:

Name	Role	Year of birth	Executive	Non-executive	Independent
Della Valle Diego	Chairman	1953			
Della Valle Andrea	Chief Executive Officer	1965			
Sincini Stefano	Chief Executive Officer	1958			
Abete Luigi	Director	1947			
Boscarato Maurizio	Director	1941			
Cambri Luigi	Director	1955			
Della Valle Emanuele	Director	1975			
Macellari Emilio	Director	1958			
Saviotti Pierfrancesco	Director	1942			
Manes Vincenzo	Director	1960			
Scannavini Michele	Director	1959			
Oglio Cinzia	Director	1970			
Guglielmetti Romina	Director	1973			
Dalmasso Sveva	Director	1956			

* *Independence of the Code of Corporate Governance and Independence by Consolidated Law on Finance.*

The current composition of the Board of Directors ensures gender balance in compliance with Law 120/2011 and article 17 of the Company's Articles of Association.

In further confirmation that corporate social responsibility is an approach that is shared and implemented by the highest levels of management, with its resolution on 25 January 2017 and on an entirely voluntary basis, the Board of Directors assigned to the Independent Directors Committee the additional duty of supervising issues of sustainability related to the business operations and the dynamics of its interaction with all the stakeholders and, therefore, the Independent Directors Committee:

- "examines and assesses the sustainability policy to ensure the creation of value over time for shareholders and for all the other stakeholders in compliance with the principles of sustainable development and the sustainability guidelines and objectives submitted each year for the review of the Board of Directors;
- examines implementation of the sustainability policy on the basis of the indications provided by the Board of Directors;
- examines and assesses the sustainability initiatives, including in relation to individual projects;
- examines the company's non-profit strategy and implementation thereof, including in relation to individual projects, and the non-profit initiatives submitted to it for the review of the Board;
- on the request of the Board, expresses its opinion on other issues regarding sustainability".

For further information regarding Corporate Governance please see the "Corporate Governance and Ownership Structure Report" prepared according to article 123-bis of Legislative Decree 58 of 24 February 1998 (the Consolidated Finance Act or CFA) for financial year 2017, approved by the Board of Directors in its meeting of 13 March 2018: the report explains in detail the corporate governance system of TOD'S S.p.A. and includes, in addition to the information required pursuant to article 123-bis par. 2 of the CFA, a comprehensive examination of the current state of the implementation of the governance principles recommended by the Corporate Governance Code for Listed Companies, in compliance with the so called "comply or explain" principle.

The Corporate Governance and Ownership Structure Report which we hereby refer to in full, is provided to the public together with the Directors' Report on operations and the financial statements. It can also be consulted in the "Corporate Governance" section of the website *www.todsgroup.com.*

Again on 13 March 2018, in observance of article 123-ter of the CFA, article 84-quater of Consob Resolution 11971/99 (the "Issuers' Regulation"), as subsequently amended and supplemented,

the Board of Directors of TOD'S S.p.A. approved the Remuneration Report. This Report has two sections:
(i) the first covers the remuneration policy applicable to the members of the management body, the general manager and the key managers for 2018, and the procedures followed for adoption and implementation of this policy;
(ii) the second provides information for each of the items comprising the remuneration report and describes the compensation paid in 2017 to the members of the management and control bodies, the general manager and the key managers.
The Report will be submitted for the approval of the Shareholders' Meeting which has been scheduled for 19 April 2018. It will be called upon to make a resolution regarding the first section, which will be non-binding.
The Remuneration Report is available at the registered office of the Company and on its website at *www.todsgroup.com*.

It is furthermore noted, that although it is not included under the FTSE-Mib index, the Company, pursuant to the resolution of its board on 24 October 2016, voluntarily introduced as part of its internal control and risk management system, an internal reporting system to be used by personnel for reporting any irregularities or violations of the regulations applicable and the internal procedures (so called whistleblowing), in line with the best practices domestically and internationally, providing a specific and confidential information channel, and ensuring the privacy of the whistleblower.

Integrated risk management

According to the Corporate Governance Code for Listed Companies, the TOD'S Group has in place a risk management system which ensures that the main risks to which the issuer and its subsidiaries are exposed are correctly identified, adequately measured, managed and monitored, while concurrently determining the decree to which these risks are in line with management of the company in pursuit of the identified strategic objectives.

At least on a yearly basis, the Directors in charge of the Internal Control and Risk Management System will identify the main risks of the company, taking into account the characteristics of the activities of the Company and its subsidiaries and submit these for examination by the Control and Risk Committee and the Board of Directors.
It is hereby specified that the risk identification activity is carried out by way of Control and Risk Self Assessment interviews, in order to obtain a comprehensive overview of the macro types of risks potentially applicable (typically "strategic" or external risks) and through the results of the

internal audit of the company processes, in relation to the operational, financial and compliance risks.
Once the risk identification has been completed, the risks are assessed. This process streamlines the internal/external information, allowing management to implement the appropriate actions.
Risks are assessed by means of an assessment process upon completion of which a qualitative and quantitative rating is assigned. The rating process associates, for each risk, the probability that the event will occur, and the impact that it would have.
These probabilities are also expressed (where possible) in terms of the historical frequency with which an event has materialised as part of the company operations, taking into account also the future scenarios involving repetition of the risky event.

The main risk factors affecting the company has been grouped into the following macro categories, to ensure clarity and simplicity:

- **strategic:** risks which are characteristic of the business (such as for example risks connected to the demand dynamics of the "luxury goods" sector and the risks inherent in the location of the reference markets) the correct management of which constitutes a competitive advantage, or, otherwise, a reason for failure to reach the medium-long-term objectives for the company.
- **operational**: the risk of losses from inadequacy or inefficiency of the processes, persons or internal systems or the result of external events (such as for example, the timeliness of supplies, the concentration of suppliers, the handling of contractors/*façons*, the risk of fraud, etc.). This latter category includes the risks involving internally and/or externally induced fraud. As shown in the previous paragraph, the assessment of internal and/or external risk of fraud should be supplemented, if it arises, with any reports transmitted through the key communication channels available within the company and any specific assessments conducted as part of the updating of the organisational model pursuant to Legislative Decree 231/2001. Finally, the Audit Plan Methodology provides for adoption of a systematic and structured process that also includes, among its various phases, the identification and association of an indication whether the risk involves IT, financial and fraud, with each Audit Object included within the scope of the Plan.
- **financial:** risks that have direct repercussions on the economic results and the equity of the company and which are mainly connected to external factors such as foreign exchange, credit, interest rate and liquidity risk.
- **compliance/regulatory:** risks connected to failure to comply with the laws, regulations or provisions of the law and/or the regulatory and control authorities and unfavourable amendments to the legal framework (such as, for example, any laws applicable to importing and exporting or which affect the commercial activities and distribution in the markets of reference, in addition to occupational health and safety). All the risks included in this latter category are identified and analysed by management, through preparation of the Risk Evaluation Documents

by management pursuant to Legislative Decree 81/08, including the assessment by task/work performed, the actions in place for the relative prevention and protection system, the procedures for responding to emergency and first aid situations, etc. The control activities carried out by the organisational figures required by the regulation also include the monitoring activities carried out by the Supervisory Body pursuant to Legislative Decree 231/2001.

Being aware that handling of ESG issues (environmental, social and governance) is becoming more and more integral part of its own business system, and is necessary for creating value over time while concurrently ensuring ethical, responsible and transparent management of its activities, from 2017, in addition to updating the risk factors identified previously and in line with best practices, the TOD'S Group has analysed:

- the correlation of the major "material issues" (in economic, social and environmental terms), whether for the Group or for the stakeholders, with the corresponding risk factors identified by its risk assessment activity;

- The risk factors with the most "reputation impact" in order to verify placement of each risk factor within the Group.

With regard to ESG, the following risks were mapped: non-compliance with the laws on occupational health and safety, the administrative responsibility of entities pursuant to Legislative Decree 231/2001, corruption, non-compliance with applicable laws regarding sales and distribution, inappropriate measures for forestalling counterfeiting, inadequate quality of raw materials, workmanship, management of contractors/the supply chain, the adequacy of the skills of the personnel, location of markets/country risk and reputational risk.

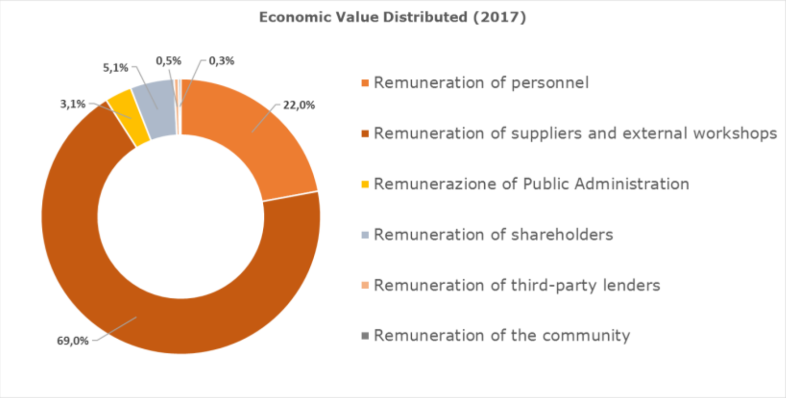
Particularly with regard to the risk of active and passive corruption, we note that the main risk factors of the Group which are potentially applicable (mapped as part of the assessment activities pursuant to Legislative Decree 231/2001) refer to the following areas: activities connected with the procurement of goods and services and the management and development of real estate assets insofar as relations with public entities/local authorities for applications for permits, authorisations and measures, etc.

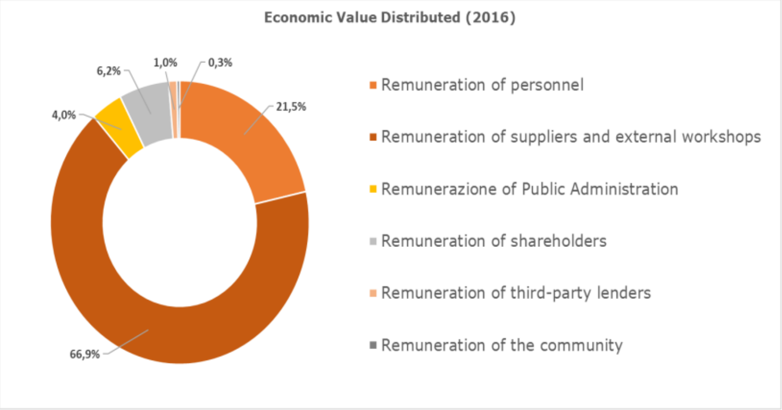
With regard to environmental risks, we note that these risks are mapped as part of the assessment activities for offences included in Legislative Decree 231/2001. Given the reference sector and the business model adopted, this risk is considered negligible insofar as compliance with the reference regulations.

Finally, in relation to the potential exposure to risks inherent in the supply chain, giving the typical nature of our sector, there could be cases involving external individuals entering or who have entered into collaborations with the TOD'S Group but do not comply with the regulatory requirements, in violation of the strict obligations contractually undertaken with TOD'S, and/or who do not respect their contractual obligations, including the principles contained in the Group Code of Ethics.

Creation of economic value

The economic value statement is a restatement of the consolidated income statement, representing the wealth produced and distributed by the TOD'S Group among its stakeholders. In 2017, the **economic value generated** by TOD'S Group was equal to €934.8 million, in line with the economic value generated in 2016 of €932.3 million. The **economic value distributed** increased from €902.5 million in 2016 to €911.7 million in 2017. In particular, approximately 97.5% of the economic value created by TOD'S Group was distributed to the stakeholders, both internal and external, while the remaining 2.5% was kept within the Group. Among the stakeholders, in 2017 the suppliers and external workshops was the group to which the largest portion of the economic value was distributed (69% of the total value); this value has increased from 66.9% in 2016. Similarly to 2016, in 2017 in addition to suppliers and external workshops, the other two stakeholder categories to which significant portions of the economic value were distributed were personnel and shareholders, who respectively received 22% and 5.1% of the economic value generated by the Group.





3.Tradition and innovation

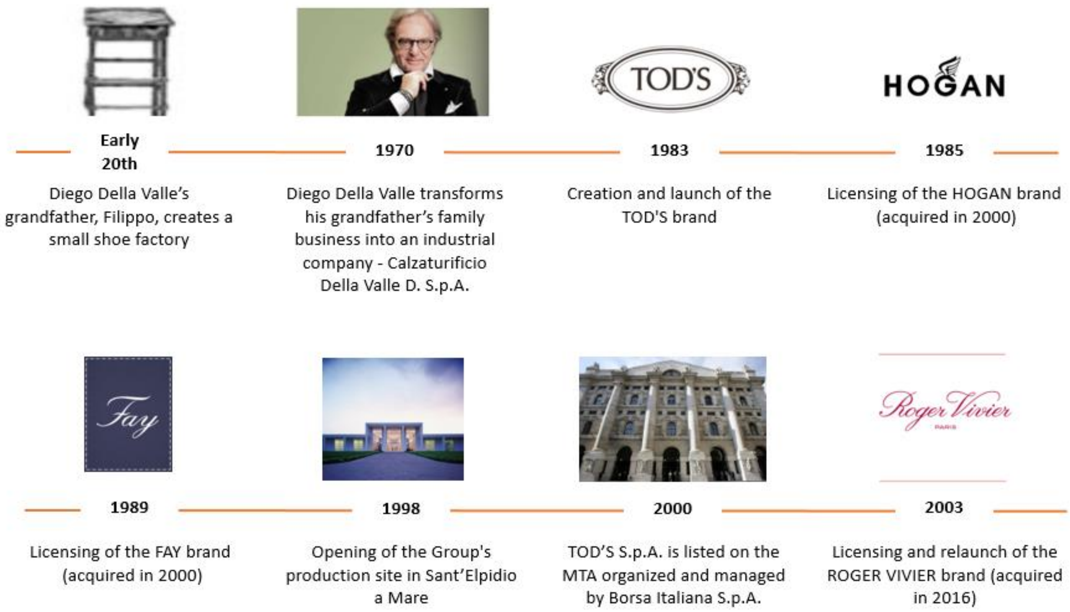
TOD'S Group boasts a history based on solid, enduring foundations, on values that have been constantly strengthened for over 100 years, so much so that they constitute the essence of the brand and have brought it international recognition: these values are part of ***tradition****, understood as quality, an inherent element of Made in Italy production that is evident in all its products, and expertise, understood as a set of artisan skills handed down from generation to generation. Bolstered by these values, the Group has always promoted their development and protection throughout the supply chain and encouraged their spread among its customers in order to create responsible value in the long term.*

Though the Group has upheld its values over time, they have not remained static: they have developed in line with the needs of its stakeholders, according to the Group's desire to always respond in a new and original way to their needs, combining tradition and ***innovation*** *and staying true to its mission: to offer a worldwide clientele products of the highest quality that meet their functional and aspirational needs.*

3.1 The history of TOD'S Group

Tradition, quality, excellence, craftsmanship and Made in Italy: these values, on which TOD'S Group has built its history, continue to be passed down and preserved with extreme care. It all started at the beginning of the 20th century, when Filippo Della Valle, the grandfather of Diego Della Valle, created a small cobbler's workshop. The work and passion were handed down to sons who launched the outstanding footwear business that, since from the origins, has always distinguished the Group.

Over the years, TOD'S has expanded its product range, including through the launch and acquisition of prestigious brands, but this has never impacted the founding values of its identity, which, combined with the fundamental component of **innovation**, have enabled the Group to establish itself as one of the leading players in the production and marketing of footwear, leather goods, clothing and luxury accessories.



The TOD'S Group brands

TOD'S

Fay

HOGAN

Roger Vivier
PARIS

Today, TOD'S S.p.A. is an operating holding company of an internationally-renowned group that operates through the **TOD'S**, **HOGAN**, **FAY** and **ROGER VIVIER** brands.

Though they have their own distinct identity, the Group's brands share the same philosophy based on a balanced mix of tradition and modernity, high quality, creative content and broad product usability. The high quality of the products is guaranteed by the important role of manual work in all stages of the production chain:

TOD'S

The **TOD'S** brand is synonymous with luxury footwear and leather goods. Characterised from the outset by models that have become cult contemporary lifestyle items, in the world of luxury accessories it represents the perfect combination of tradition, high quality and modernity. Every product is made by hand with superior craftsmanship to become, after numerous steps and checks, an exclusive, recognisable, modern and functional item. Some of the designed products, such as the *Driving Shoe* or *D-Bag*, popular among celebrities and personalities worldwide, have become icons of a new style of masculine and feminine elegance. Each collection is a different take on "Contemporary Living", an iconic lifestyle imbued with Italian spirit, a value that the whole world recognises as synonymous with impeccable taste and elegance, handed down from generation to generation.

'80s	'90s	2009	2015	2016
Launch of the **Gommino** and a few years later of the **Winter gommino**, brand icons and authentic emblems of the values of tradition and innovation that TOD'S pursues in every product.	Launch of **D-bag**, inspired by Princess Diana, an example of outstanding artisan workmanship, made only with fine leathers, the perfect expression of luxury interpreted by TOD'S.	Launch of the **D-styling**, a modern, functional bag with a contemporary silhouette that has been popular among celebrities and sophisticated consumers for years.	Launch of the **Wave bag**, a true design object characterized by the trademark rubber on the patch, always made from high-quality materials and in special versions with outstanding style content.	Launch of the **Double T collection**, the brand's diverse collection identified by the Signature accessory in metal or covered in leather

HOGAN

The **HOGAN** brand was founded in 1986 and is positioned in the luxury market, combining style, functionality and innovation. HOGAN translates the original vision of the concept of casual luxury suitable for any occasion into a contemporary lifestyle, in which quality and style are always appreciated.

The brand offers footwear and accessories with a modern, essential design that perfectly balances versatility and elegance. HOGAN products, which are made from extraordinarily high-quality materials, are iconic objects designed to remain fashionable from season to season.

1986 – Launch of **Traditional**, a sneaker inspired by cricket

1997 – Launch of **Interactive**, one of the brand's iconic models, a symbol of urban dynamism and functional luxury

2004 – Launch of **Olympia**, a light, modern sneaker capable of conquering new generations

2016 – Launch of **MAX H222**, a fashionable expression of Hogan's sneaker world

2017 – Launch of the **H321** sneaker, the brand's casual and innovative bestseller, designed for a modern, dynamic man

FAY, a brand launched in the second half of the '80s, boasts a range of high-quality clothing products distinguished by the brand's specific outerwear expertise, by the technical treatment of its fabrics and by the meticulous design and extreme functionality of its clothes, which stand out due to their excellence, comfort and durability, combining style, quality and versatility.

Every season, the brand presents a menswear/womenswear collection and a junior collection consisting of both iconic garments, restyled according to current trends and technologies, and brand new additions to all its product categories.

The brand, which is strongly anchored in Italian vintage fashion, is now taking on the challenge of communicating its distinct identity to new generations, combining innovative and practical fabrics with the timeless characteristics of authentic Italian style.

'80s – Launch of "**Quattro Ganci**", the first Fay jacket in super-resistant Cordura nylon, which became a symbol of the brand. It was followed by other versions in new materials ranging from nylon to fleece to anti-tear fabrics

1989 – Launch of the **"Travel Jacket"**, a jacket designed for going from a business meeting to an evening with friends, travelling without diminishing your impeccable elegance, a blazer in premium anti-crease treated fabrics, with semi-tailored finishes and pockets for your air tickets, glasses and passport.

1990 – Launch of the "**Stadium Jacket"**, an ultra-light, hyper-comfortable solution with two elements. A down inner and an outer jacket with large pockets and fleece hand warmers on the outside. A buttoned flap transforms into a seat cover

1992 – Launch of the "**Double Coat"**, a perfect fusion of elegance and functionality. A garment with a simple, refined design, which can be worn in different weather thanks to its removable inner gilet.

1995 – Launch of the **"Artic"** down jacket, perfect for the needs of practicality and elegance: slim and tapered, it is made of super-light down with a hood.

2003 – Launch of the "**Virginia Coat**", a timeless coat with an enduring allure, characterized by a distinctive three-hook fastening and an elegant, feminine silhouette

2006 – Launch of the "**City Hunter**" project, a successful idea in the women's collection , it meets the needs of metropolitan gentlemen fascinated by the elegance of the woman's wardrobe. British-style charm defines outerwear in shiny or matt nylon satin, padded with very light and very warm thermos material.

ROGER VIVIER, who created the first stiletto heel in the '50s, designed extravagant and luxuriously embellished shoes that he described as "sculptures". A skilled artisan who loved feminine elegance, Vivier elevated shoes to art objects through the savoir-faire of French embroidery houses. The artistic heritage and traditional roots of the Vivier fashion house have now been given a new lease of life. Thanks to the Group's work, ROGER VIVIER's creativity and vision live on and new chapters are added to this unique story every season, going beyond footwear expertise to include bags, small leather goods, jewellery and sunglasses. Today, ROGER VIVIER's womenswear is sophisticated and elegant, yet slightly eccentric: it is designed for a woman who tries, through her clothes, to express her timeless elegance, without forgetting to add a cheeky, extravagant touch.

Timeless Icons: tribute to timeless elegance

TOD'S and Mondadori have teamed up to produce a stunning book bringing together gorgeous images of celebrities past and present, celebrating the eternal appeal of the star names that never cease to radiate sophisticated, timeless style.

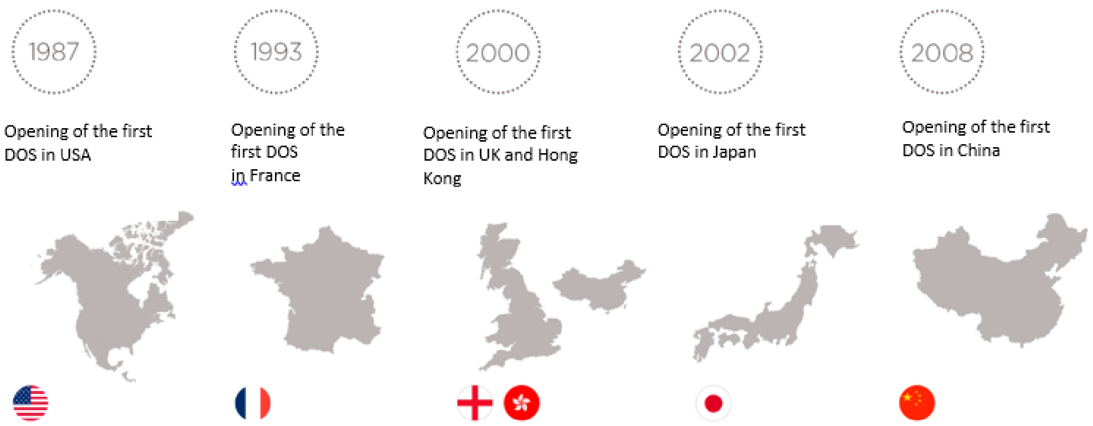
The book shines the light on a carefully selected group of iconic figures from the last century. It contains some of the best-loved style icons from the red carpet, silver screen and glossy front pages, including Jane Birkin, Brigitte Bardot, Lauren Hutton, Audrey Hepburn, James Dean, Marlon Brando and Mick Jagger. There are also a number of the hottest current stars, not least Gisele Bündchen, Blake Lively, George Clooney and Leonardo Di Caprio.

The beautiful photographs are a fitting tribute to the exceptional style and charm of each subject, showcasing once again the timeless elegance so synonymous with the TOD'S brand.

Distribution network and international expansion

The prestige of the distributed brands and the high specialisation required to present the relevant products to customers make it necessary to distribute products via a network of highly specialist stores. To this end, the Group mainly uses three channels: **directly operated single-brand** stores (DOS), franchised stores and a series of independent multi-brand stores selected on the basis of their suitability to the brand's positioning, their location and the level of service offered to customers, as well as the visibility that they can provide for products (**wholesale distribution**).

The Group began its international expansion in 1987 with the opening of its first direct store in the United States, in New York. Following the consolidation of the market success of its products in Italy, the Group, in order to guarantee a direct presence on the strategic, respected markets, advanced its expansion strategy in foreign markets by opening its first boutique in France in 1993, in the prestigious *Rue Faubourg Saint Honoré* in Paris and, subsequently, in several European markets including in England in 2000. After consolidating its presence in the European markets, the Group began to penetrate the Asian markets, opening its first store in Hong Kong in 2000, followed by openings in Japan and China, respectively in 2002 and 2008.



The Group's strategic focus has historically centred on the development of the DOS and franchised store network, since these channels allow greater control of distribution and more faithful communication of individual brands' images. Moreover, in some markets, the Group also has a presence in independent multi-brand stores, a channel that plays a central role for the Group. As at 31 December 2017, the single-brand store distribution network consisted of a total of **275 DOS** and **112 franchised stores**, a slight increase compared to the single-brand store distribution network as at 31 December 2016, which consisted of 272 DOS and 107 franchised stores.

In addition to traditional sales channels, since 2012 the Group has used **e-commerce**, an online marketing channel for products in the current collection of all the brands managed by TOD'S Group; currently the Group's brands' e-commerce sites operate in 31 countries around the world (9 of which were added in 2017) with a main focus on the North American, European and Chinese markets.

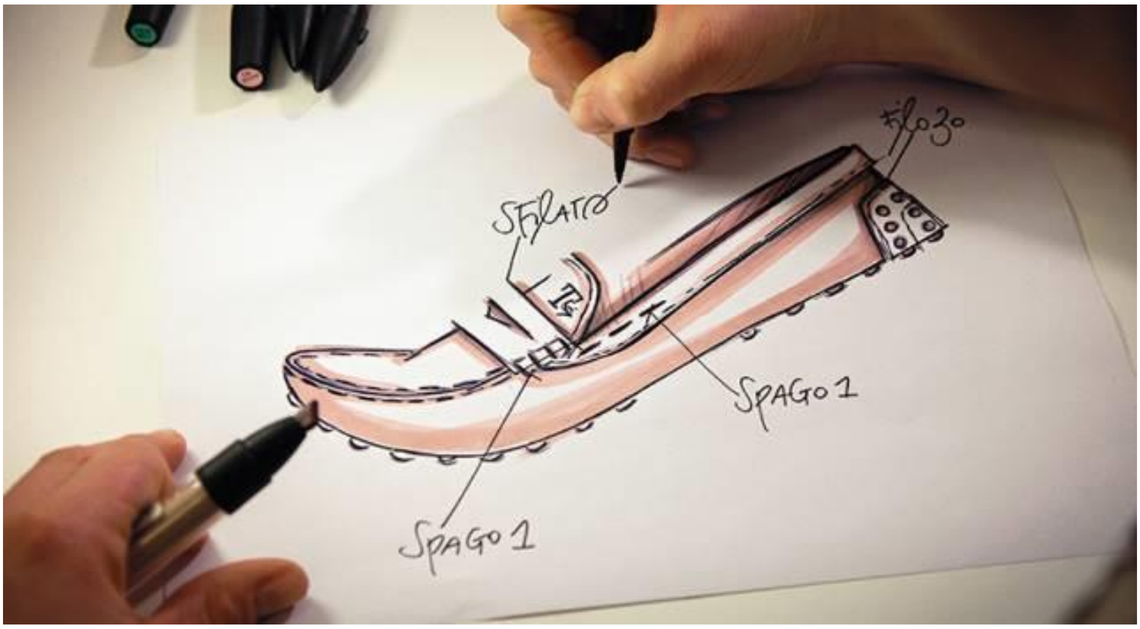
3.2 Responsible management of the supply chain

TOD'S Group boasts a long history in the production and marketing of footwear, leather goods and clothing, distinguished by different brands, all equally characterised by high quality, exclusivity and a recognisable style.

A distinctive element of the Group's production processes, which guarantees the prestige and exclusiveness of the brands, is its careful internal control of the entire production chain from the creative stage to the production of prototypes, to the selection and procurement of raw materials and components, and finally to the creation of products. The production of footwear and leather goods is carried out in internal facilities and workshops owned by the Group or in specialised external workshops. The latter are entirely located in areas that have a historic tradition of footwear and leather goods production, a guarantee of professional workmanship and manual expertise. For the production of its clothing line, the Group relies on selected specialised external workshops.

The uniqueness of the Group's products has always been based on **values** such as craftsmanship, design, creativity, tradition, innovation, quality and the promotion of Made in Italy.

Over the years, the Group's product range has evolved in line with customer needs and the values inherent in each of the Group's brands.



Supply chain quality

All the Group's **commercial partners**, **whether they are suppliers or external workshops**, from the raw material procurement stage to production management and product distribution, play a crucial role in the pursuit of qualitative excellence. To this end, the TOD'S Group carefully selects its partners, favouring established collaborations and solid, long-lasting relationships aimed at maintaining the standards of excellence and quality that have always distinguished its products.

Craftsmanship: a value to pass down

Artisan skills are not only key to the Group's creation of high-quality products, but also an important component of the technical and cultural heritage of Made in Italy production. For this reason, TOD'S Group is committed to preserving this value, encouraging young people to enter the world of craftsmanship, which still offers major employment opportunities in Italy, combining innovation and tradition.

Following the "Fabbrica del Talento" (Talent Factory) project in 2015, in which a group of aspiring young artisans undertook an apprenticeship experience that culminated with the recruitment of a large part of the participants, in September 2016, the Group launched the "**Botteghe dei Mestieri e dell'Innovazione**" (Crafts and Innovation Workshops) project.

This project, which ended in March 2017, involved the participation of ten young people between the ages of eighteen and thirty-five, who had the opportunity to get an insight into the world of the "Master of Arts" through an interesting and prestigious training experience,

during which they worked alongside the Group's skilled artisans and oversaw, together with these craftsmen, the key phases of the manufacturing processes.
This collaboration enabled the transfer of skills from experts to young people through first-hand experience, promoting the dissemination and transmission to new generations of the undisputed excellence of the Made in Italy tradition.

Outstanding raw materials and promotion of Made in Italy

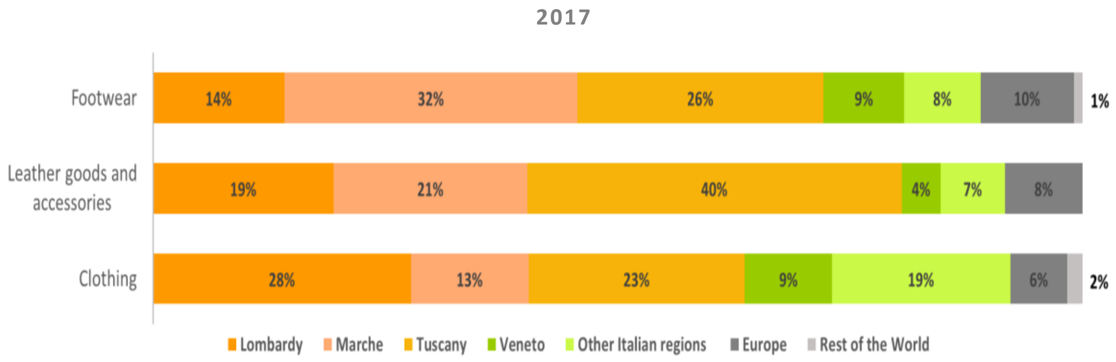
In order to guarantee excellent products, structured processes are adopted to research and select the best raw materials (leather, accessories and fabrics), combining quality, tradition and innovation.

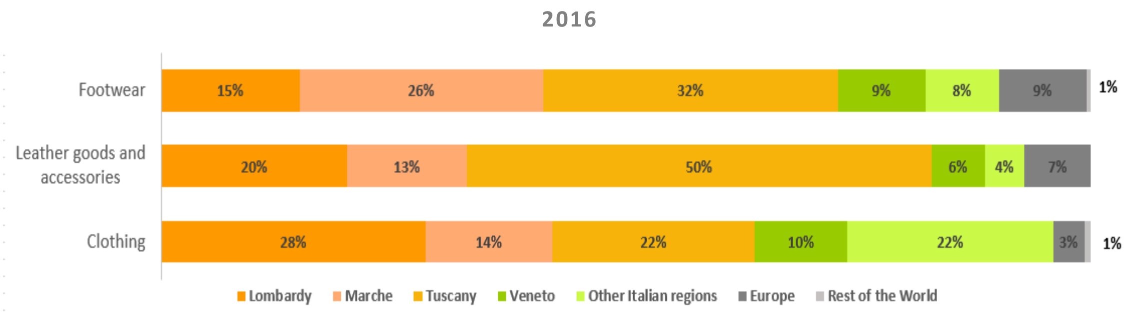
In its constant pursuit of these values, the Group continues to collaborate with the best tanneries, as well as researching, where available, new developments and new stylistic trends at trade fairs.

When selecting raw materials, the Group prefers to establish partnerships with the best **suppliers in Italy**. This preference is evidenced by the fact that in 2017, for all the Footwear, Leather Goods and Accessories and Clothing Divisions, the total cost of the procurement of raw materials from Italian suppliers amounted to **97%** of the total supply budget.

In 2017, the Group, in line with 2016, collaborated with a total of 536 suppliers, including 219 for the Footwear Division, 72 for the Leather Goods and Accessories Division and 245 for the Clothing Division.

No. of suppliers by geographical area and product category



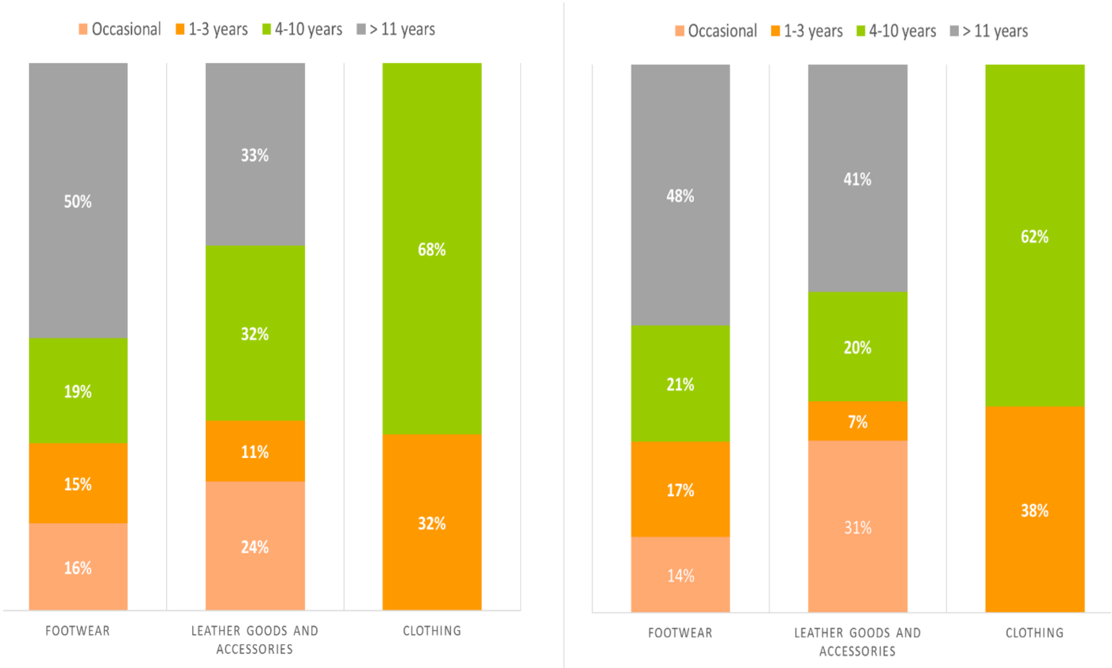


Only when the best raw materials for a single product category are not available in the local market, the selection process involves the best foreign suppliers (e.g. in France) that are able to meet the Group's quality and stylistic expectations, while guaranteeing the highest standards of technical reliability.

In order to ensure compliance with the common goals of Made in Italy excellence, quality and the fight against counterfeiting, the Group considers it essential to create and maintain **long-lasting relationships with suppliers**.

Suppliers by years of collaboration and product category

2017 - 2016



Raw materials purchased by type*

Typology of raw material	2017		2016	
	Unit of measurement	Quantity/000	Unit of measurement	Quantity/000
Hides	Pq/000	23,840	Pq/000	20,987
Metal accessories and other materials	Pieces/000	30,629	Pieces/000	25,633
Fabric for clothing	Meters/000	487	Meters/000	475
Fabrics linings for clothing	Meters/000	249	Meters/000	278
Bottoms	Pairs/000	21,430	Pairs/000	1,937
Accessories	Pairs/000	283	Pairs/000	1,002

** Purchases include the main raw materials supplied, according to the most representative measurement unit.*
The purchased raw materials, rather than the raw materials consumed, were reported. 0% of the reported raw materials are renewable.

TOD'S Group monitors substances deemed dangerous for the health and safety of the end user and harmful to the environment, putting environmental sustainability at the heart of its production processes.
At the same time, in order to protect and safeguard its image and that of its brands with regard to checks by the relevant authorities, TOD'S ensures that its products comply with its RSLs (Restricted Substances Lists), which were developed in accordance with the guidelines of the Italian National Chamber of Fashion (CNMI) regarding eco-toxicological requirements, based on current regulations on the protection of health and safety and respect for the environment.

To this end, TOD'S requires its suppliers to ensure compliance with the relevant standards regarding the materials supplied by signing special RSLs (Restricted Substances Lists), which list the obligations for each supplier and specify the substances and relevant regulatory restrictions by type of material and final destination.

In addition, TOD'S Group carries out random tests on supplied materials in order to verify their compliance with current regulations.

TOD'S for Ferrari: outstanding level of Made in Italy

In 2017, TOD'S continued its ongoing collaboration with an outstanding Italian company, a Made in Italy global ambassador: **Ferrari**. The two brands share the values that lie at the heart of the Italian tradition: passion, creativity and craftsmanship. **TOD'S for Ferrari** is a collaboration that aims to create a collection of footwear and leather goods of unmistakable value through the use of fine materials, high quality and elegance. The main star of the collection is the Gommino model, the TOD'S brand's modern style icon. Every Gommino includes up to 35 pieces of different leather, which are treated and checked manually by a TOD'S craftsman before assembly. Every single stage of the production process is performed by a craftsman with specific skills and the TOD'S for Ferrari logo is only applied to the Gommino after meticulous checks.

High-quality production processes

Though they have their own distinct identity, the Group's brands share the same philosophy based on a balanced mix of tradition and modernity, high quality, creative content and broad product usability.

The high quality of the products is guaranteed by the strong manual component that characterises all stages of the production chain: every product is made by hand with superior craftsmanship to become, after numerous steps and checks, an exclusive and recognisable item.

The production process for footwear, leather goods and leather accessories is carried out inside the Group's facilities and workshops or in specialised external workshops.

The Group currently has five facilities for the production of footwear – four in Italy (one in Sant'Elpidio a Mare, one in Arquata and two in Comunanza) and one in Albania –, a specialised workshop in Hungary where certain specific footwear processing sub-phases are conducted, and three leather goods facilities in Italy (two in Vallina and one in Tolentino). In particular, it should be noted that in the course of 2017, in the footwear production division, the Arquata del Tronto facility was built and inaugurated and production capacity was expanded for the Albanian site, which, up until the previous financial year, only oversaw certain specific processing sub-phases.

The processing stage in the Group's facilities is carried out by **expert craftsmen** who, thanks to their consolidated working relationships with the Group, possess authentic know-how and artisan skills that are essential to the quality of the products.

The specialised external workshops are located in areas with a long-standing artisan tradition. To produce its clothing, the Group uses highly specialised external workshops that meet the requirements of technical and qualitative excellence necessary for the creation of the individual products that make up the clothing line.

In its continuous pursuit of high quality standards, the Group relies on long-term collaborations with the best, highly-specialised external workshops that ensure high quality standards. When researching new workshops, the Group adopts structured qualification processes that provide accurate technical and organisational analysis to evaluate the characteristics of the production structure, the level of specialisation achieved, the company organisation and any UNI-ISO certifications obtained.

The external workshops that collaborate with TOD'S Group must operate in accordance with regulatory requirements regarding health and safety in the workplace and must possess all the qualifications and permits required by the relevant authorities. When conducting their work, the workshops are required to apply, in their internal and external working relationships, the industry's National Collective Bargaining Agreement and to scrupulously observe its application with particular reference to regularity in the recruitment process, the level of wages, periods of rest and vacation, aspects of protection of individual and collective safety and health, the absolute prohibition of the use of child labour and staff who are not in compliance with all applicable regulations.

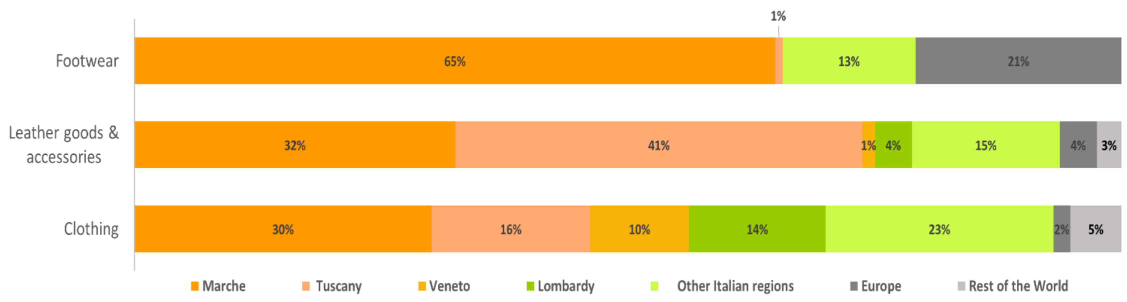
The external workshops are also required to comply with the Code of Ethics.

Any violation of the aforementioned regulations and/or TOD'S Group's Code of Ethics may result in termination of the contractual relationship.

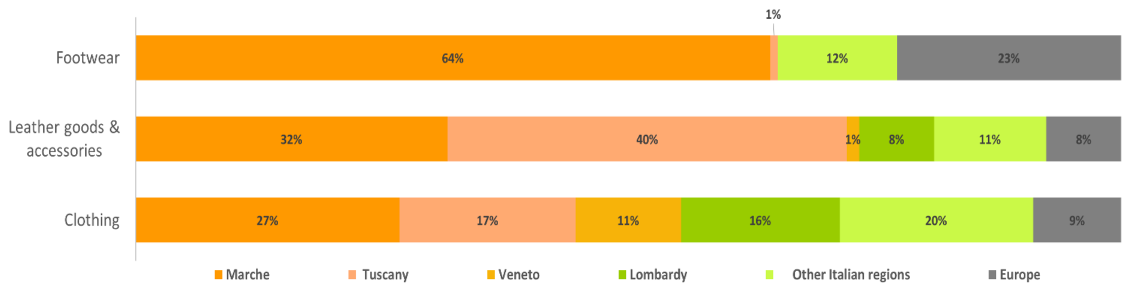
The qualification of the Group's external workshops and their position in the Group's register are periodically evaluated to assess whether they have complied with the requirements inherent in the production structure and satisfied the high quality standards required, which are certified by inspections by external inspectors, who carry out technical analysis, and by checks conducted by the Group's quality control division.

External workshops by geographical area and product category

2017



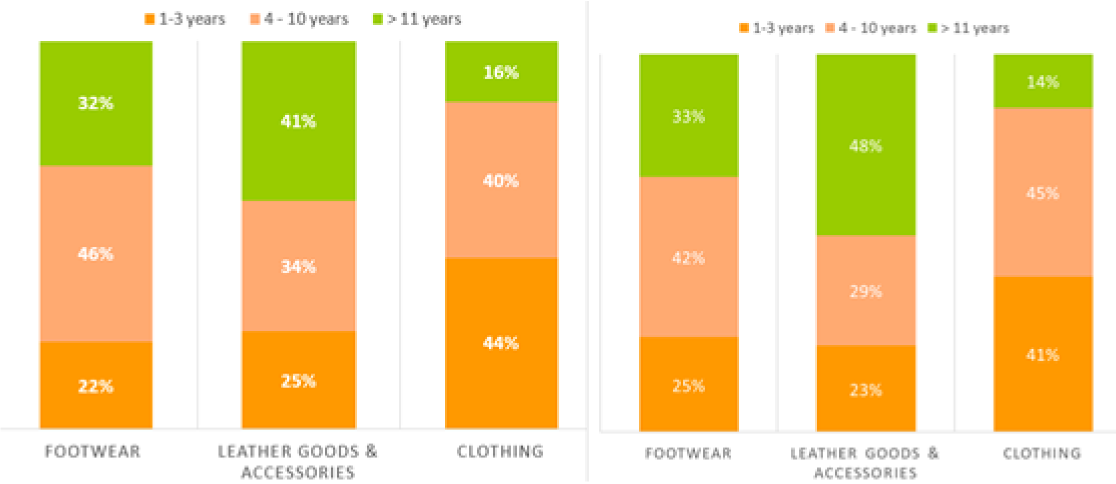
2016



The geographic distribution of the external workshops in 2017 is almost the same as that of last year, but there has been a percentage rise in the number of Italian workshops for all product categories.

External workshops by years of collaboration and product category

2017 - 2016



Product quality and uniqueness

Quality checks

TOD'S Group is renowned throughout the world for the high quality standards of its products and for the image and prestige of its brands. It uses the best suppliers of raw materials and **skilled artisans** to guarantee the high standards of excellence for which the Group is known and appreciated.

The process aims to ensure customers the high quality standard traditionally guaranteed by the TOD'S Group, which is based on structured process controls and systematic product checks. The process controls permeate the different stages of the design of a new product, from the choice of material requirements to construction techniques, to industrialisation, to inspections of the quality of the raw material, components and semi-finished products, and finally to product quality checks. The Group's **quality management of its processes** is aimed at ensuring compliance with technical parameters and identifying the risk of any hidden defects that may arise during the use of the product, which cannot be identified from a "visual" inspection.

During the product design phase, the controls and checks carried out by skilled technical experts concern the quality of the "product design" and therefore include selection and analysis of the requirements of the best raw materials and components potentially used in the collections and of the construction and industrialisation techniques suitable to guarantee the required standards.

In the raw materials selection stage, the materials are subjected to static analysis and laboratory tests in order to verify that their characteristics reflect the parameters set out in the company's standards, which are intended to ensure that products are suitable and durable. The static material qualification process is followed by a prototyping stage, in which the materials are subjected to further evaluations from a technical and aesthetic point of view, including with the help of specific tests that analyse their durability.

If the prototype passes the control stages described above, the raw materials identified are considered suitable for the production of the products and it is therefore possible to proceed to the product procurement and production stage.

To ensure compliance with the high quality standards required by TOD'S Group, structured processes of research, selection and qualification of suppliers, raw materials and components are adopted, in order to ensure that the selected raw materials have innovative elements and high-quality levels that guarantee durability and permanent aesthetic appeal, functionality and quality.

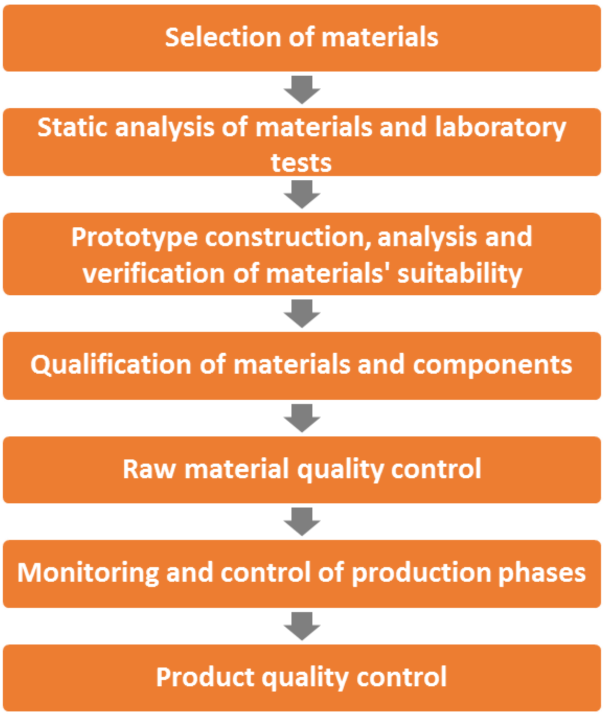
Every consignment of supplied leather and fabric is checked, based on specific criteria, when it is delivered in order to verify compliance with TOD'S requirements. These checks are carried out in compliance with the approved company procedures and computers are used to guarantee the traceability of the entire process.

After the raw material controls, the production process begins, involving, at specific key stages, the identification of control checkpoints.

At the end of the production process, quality controls are carried out on the product, ensuring that every product has reached the standards and requirements defined at Group level.

In the case of production carried out by external workshops, quality controls are directly carried out by Quality Inspectors at the external production units, as well as at the Group Logistics Centre.

Main stages of quality control



Chemical safety of products

The quality of products also depends on their **chemical safety**, ensuring above all customers' well-being. TOD'S Group monitors substances deemed dangerous for the end user and harmful to the environment, putting environmental sustainability at the heart of its production processes.

The RSLs (Restricted Substances Lists), which fully comply with the Guidelines of the National Chamber of Italian Fashion, are based on the one hand on the main relevant standards specific to each division and product category, and on the other, on the medium and long-term goal of gradually eliminating certain chemicals, even though they are permitted by law.

The RSLs have been drawn up on the basis of the following criteria:

1. compliance with the main international regulations:

- European Union regulation no. 1907 of 2006, called REACH, concerning the registration, evaluation and restriction of chemical substances;

- Chinese national standards (GB standards), specific to each raw material (leather, textiles, accessories);
- Korean Safety Quality Mark Act (KC mark);
- US Consumer Product Safety Improvement Act (CPSIA) of 2008, which establishes limits with respect to the levels of hazardous materials imported or produced in the United States, especially in relation to their recipients;
- principles of the "Proposition 65 Settlement" in California.

2. Gradual elimination of certain chemicals from the production process, even though they are permitted by law. In this respect, many reference parameters, expressly referred to by TOD'S RSLs, have significantly lower values than those permitted by current regulations.

Chemical checks:

TOD'S Group carries out random tests on supplied materials in order to verify their **compliance with its RSLs**.

Further specific checks on finished products

During the product quality control stages, TOD'S pays particular attention to compliance, focusing on the requirements of Chinese and American regulations, which are considered the most restrictive and exacting. Even on its own products, TOD'S Group carries out specific tests based on the main global safety and quality standards: QB/Standard, CPSIA (Consumer Product Safety Improvement Act).

Finally, the Group follows structured and codified processes for the management and transmission of correct information to the consumer with regard to product safety in compliance with current regulations in the relevant markets.

Protection and authenticity of products

TOD'S Group, which firmly believes in the uniqueness and quality of its brands' products, has always devoted abundant resources and energy to the fight against the rampant phenomenon of counterfeiting. Over the years, alongside activities aimed at combating counterfeits in the offline world, it has also implemented measures to counter the phenomenon in the online world.

In addition to constant dialogue with law enforcement agencies and support of their work to seize counterfeit products, with regard to **offline anti-counterfeiting** initiatives, a widespread customs monitoring system has been introduced with a focus on the main European countries and on those where counterfeiting is notoriously prevalent (such as China and Turkey), as well as a targeted programme in China to identify factories that produce counterfeit products and the definition of subsequent, necessary corrective actions. These law enforcement initiatives are supported by preventive actions, such as training for customs officers and law enforcement agents, as well as a worldwide trademark surveillance service, which allows the TOD'S Group to intercept any counterfeit goods in order to take action to prevent the registration of those brands deemed to violate their rights.

Since 2012, TOD'S Group, conscious of both the potential and the dangers of the internet, which enables the communication, in a short time and to an indefinite number of users, of the sale of counterfeit products, has designed and operated an **online anti-counterfeiting** programme, which has been improved year after year in response to new data. In this regard, to protect users, TOD'S guarantees:

- a web watching service that enables the interception and subsequent take-down of web pages that publish activities that infringe trademark rights;
- a monitoring service focused on the main online auction platforms, with a particular emphasis on the Asian markets, aimed at removing advertisements for the sale of counterfeit versions of products by the Group's brands;
- constant monitoring of the main social media channels (Facebook, Instagram, etc.), with the consequent removal of posts, advertisements and profiles that infringe trademark rights.

In 2017, the Group remained committed to its anti-counterfeiting activities, which led to the achievement of significant results.

Anti-counterfeiting results

	2017	2016
Abusive sites removed	≈ 1,100	> 1,700
Abusive auctions removed	≈ 64,700	≈ 79,800
Social media pages removed	≈ 1,000	760

Goods seized by law enforcement	≈ 35,000	>308,200
Finished goods seized during raids in China	> 6,800	> 15,100

With regard to the goods seized, there was a significant reduction in the number of cases in 2017 compared to the previous year. In the case of the raids in China, the 55% reduction is consistent with a declining trend due to over ten years of strict law enforcement activity in the country, which is beginning to produce good results. The Group is considering initiating further actions in the coming years in order to counteract the evolution of this phenomenon.

In the case of goods seized by the police, although the 2017 data cannot yet be considered definitive (since requests for reports often do not coincide with the seizures and can even be deferred for months), the current reduction is in line with the strategic priorities established annually by the various commands.

TOD'S Group's commitment in this field is not limited to the activities described above, but also takes the form of membership of associations, as well as participation in specific round tables focused on the fight against counterfeiting, which are also organised in synergy with other luxury sector companies. One of the most notable organisations that the Group is a member of – due to its authoritativeness on the subject – is **INDICAM** (Centromarca institute for the fight against counterfeiting), which has always been at the forefront of every action to combat the threat posed by counterfeit products, while promoting, from an intersectoral and interprofessional perspective, an anti-counterfeiting culture. In addition to the fight against counterfeiting, the Group is committed to preserving the quality and uniqueness of its products by guaranteeing greater traceability along the entire production chain: with this goal, the Group has started a test phase to incorporate the use of **RFID (Radio Frequency Identification) labels**.

The central importance of the customer

Customers are among TOD'S Group's main stakeholders: understanding their expectations – from the most obvious to the unexpressed –, customer satisfaction and the desire to build lasting and trusting relationships with customers are essential objectives for the Group.

The central importance of customers, which underpins the company's approach, is evident in its most concrete form when the Group directly interfaces with them. Consequently, TOD'S Group carefully conducts all the stages of interaction with its customers: from the sales ceremony in

boutiques to the shopping experience on the e-commerce platform, from digital communication – webmail and website – to after-sales services, product customisation services and the creation of content on social media, all experiences designed for customers must represent unique, outstanding moments that are in line with the values on which the Group has built its identity.
In order to **maximise the benefits** of the brand-customer interaction for both parties, it is essential to have an effective contact strategy, planned on the basis of careful analysis aimed at identifying prevalent purchasing behaviour and placing customers in a specific stage of the life cycle of the relationship. With this in mind, in 2015, the Group launched an important project aimed at the introduction and development of specific tools and processes for the various customer categories identified. The project involved the collaboration of several departments, who shared their knowledge and experience in relation to customers, under the guidance of the Corporate CRM Division within the Corporate Marketing Division.
This collaboration resulted in the launch of the CRM Project, which, since 2016, has enabled the collection of personal and contact information and the comparison of customers' data with sales information, leading the Group to develop new personalised contact opportunities with the customers of each of the brands, responding more effectively to their tastes and personal habits.
The Group has adopted an authentic contact strategy involving initiatives aimed at its best customers, who are true ambassadors of the various brands. These initiatives include Customer Delight, which aims to offer non-purchasable experiences and services, while also responding to the needs of its customers through unique, personal experiences, such as the ability to purchase items in an exclusive preview, private appointments, including outside opening hours, personalisation services, dedicated customer service, etc.
It has also organised important internal CRM training for sales assistants, which involved all the Group's brands on a global level. This training programme covered the following topics: customer recognition, the introduction of CRM during the sales ceremony and the collection of customer data, the use of systems and information related to the customer, and the promotion of true self-efficacy when interacting with customers.
In order to facilitate widespread implementation of the new strategy, the Group has also provided various software to disseminate and preserve the culture of CRM and the central importance of the customer within the company. Special clienteling software has been implemented within each individual store, where a CRM Specialist has been appointed, who is responsible for managing the software. Other campaign management, reporting and analytics tools are centrally implemented and customised for brands, regions, stores and retail, marketing and digital offices.
In this last case, it is important to emphasise CRM's role as "glue" between the online and offline channel, digital and retail, with a focus on omnichanneling increasingly aimed at the needs of the end customer. CRM data and tools available to date allow digital to create web-mails according

to many variables that can be selected for different needs and to have updated and timely information on the progress of the various campaigns (open rates, unsubscribe, etc.).

The brands and sales ceremony: customer-oriented differentiation

The Group's careful attention to the purchasing experience is evidenced by the fact that the different brands offer different sales ceremonies that reflect their core values, positioning and peculiar characteristics.

TOD'S views its sales ceremony as a distinctive art that conveys the values of the brand in the different stages of the relationship with the customer, a unique approach that aims to recognise the specific characteristics of individual customers and their desires.

In defining the characteristics of the new sales ceremony, the role of sales staff, recognised as brand ambassadors, was enhanced: to complete the experience in perfect TOD'S style, the "Ambassadors" can offer interesting ideas to customers, such as suggestions to spread their knowledge of Italian lifestyle, of which the brand is a proud representative.

For **HOGAN**, the sales ceremony is based around taking care of customers. It is not simply a guideline, but a way to accompany them in their shopping experience, receiving them in the stores as a welcome guest and making them feel at home. Sales staff are therefore required to convey their passion and engagement with the brand's values, combining professionalism and competence and creating an empathic relationship by adapting to individual customers.

For the **FAY** brand, although sales are mainly focused on the wholesale channel, in selected stores the customer is accompanied by a dynamic shopping experience that highlights the peculiar characteristics of the brand's style, such as versatility and excellence.

Within **ROGER VIVIER** boutiques, the creation of contact with the customer takes place even before the actual sales phase. Through an empathetic approach and dialogue, elements that characterise a visit to the boutiques, the customer is accompanied on a journey to discover the brand. After initial contact with rare, exclusive luxury, the other distinctive elements of ROGER VIVIER's womenswear are gradually brought to light, allowing the customer to progressively identify with it: womenswear with a highly feminine, impertinent and extravagant attitude that boasts the timeless elegance of Parisian inspiration.

Since 2014, TOD'S Group has developed targeted training modules in order to align the skills and attitude of sales staff with the essence and exclusivity of the brands.

The corporate app is available for all the brands and contains the history of the company and of the individual brands, allowing you to travel virtually within the headquarters and production units.

All new employees and sales assistants in the most distant regions can thus learn about and appreciate the quality expressed throughout the production chain and inform themselves about the selection and processing of the hides. The corporate app is currently available in six languages.

In addition to this tool, we also constantly organise Italian Orientation weeks to accompany new directors and a selection of the rest of the store teams to a visit to the headquarters, the production units and selected stores between Rome and Milan. The programme also includes visits to monuments and insights into Italian culture, enabling the retail team to more effectively communicate values related to quality, tradition and Made in Italy.

The mission of the TOD'S brand's training activities, on a global level, is to be **customer centric**, always putting the customer first. Consequently, in order to improve the professionalism of the sales staff, including in 2017, the Group has focused its attention on the following areas:

a) Knowledge (knowing): with the aim of helping to improve the sales approach by providing more details on the inspiration of products and collections, using an increasingly evocative and emotional language.

The following training modules were provided in this area: iconic gommino, my custom-made gommino, sartorial touch, womenswear and menswear collection mood, "our leather culture", "our heritage and our experience with fine materials", etc.

b) Professionalism (know-how): with the aim of emphasising the natural elegance that distinguishes TOD'S style, which is in line with the brand's values and is consistent throughout the world. The module aims to involve the customer by offering a unique approach in order to further develop brand loyalty.

The following training modules were provided in this area: how to... bags and shoes presentation, the art of selling – TOD'S loves Italia, rubber strap - the perfect bow, how to use social networks, etc.

c) Brand identity (knowing how to express the brand's values): with the aim of introducing the company's characteristics and brand identity to enhance the team's approach, promoting the Italian lifestyle and the Made in Italy philosophy with determination and passion.

The following training modules were provided in this area: Italian orientation, corporate app, digital expert, Italian Notes - a guide to the Italian lifestyle, etc.

As described above, the Italian spirit and Made in Italy are values that are inextricably linked to the Group's image. This has led to the development of the "Italian Notes" project.

ITALIAN NOTES
THE GUIDE OF ITALIAN LIFESTYLE

A collection of tourist guides discovering the Italian way of life admired all over the world.

Each city represents the inspiration for a particular style present inside the collections, the Mood of collection is interpreted through places and suggestive landscapes

Each city is introduced by a tutor special, a representative of Tod's excellence, who shares his favorite places in the city.

- Milan
- Venice
- Como
- Florence
- Siena&Montalcino
- Bologna
- Naples
- Rome

Where:
- Corporate App - Tod's Room
- Find out more about **italiannotes.tods.com/en/**

In order to promote sharing of the values that distinguish the brand and to optimise the training and learning process for retail and corporate personnel, the Group has developed online tools/platforms:

1. TOD'S Retail Sharepoint: a constantly updated platform containing all the information related to the world of retail, operations and training.
2. Corporate app: a reference point for the training world, this app is focused on the company's history and values and on the brands' characteristics. It explores issues relating to iconic products with the aim of enriching the brand story for the customers.
3. Retail app: a reference point for the seasonal training modules containing presentations and videos. This app allows employees to keep up to date with production phases, fashion shows and special projects.
4. Intranet: an archive of updated documentation for the provided training modules, the collections of the previous seasons and the company policies and procedures ("Store Handbook") regarding retail operations.

In particular, the additional goal of training is, on the one hand, to make sales staff aware of the **Group's values**, thus guaranteeing their adequate transmission to customers, and on the other hand, to provide the **social skills** necessary to excel in the international context in which the Group operates.

Learning to adapt communication style based on the cultural differences in the behaviour, traditions and expectations of global customers is fundamental in order to remain competitive.

As evidence of its commitment in this regard, it should be noted that in 2017 the Group provided over 22,200 hours of retail training.

With a view to continuous improvement of the experience offered to customers, since 2014, the Group has carried out assessments of the level of assistance offered in boutiques through **Mystery Shopping** surveys. This initiative enables, through mystery shoppers ("professional customers" who make incognito purchases), the observation and analysis of the strengths and areas of improvement of sales staff. The activity ends with the completion of a questionnaire by the mystery shoppers regarding the purchasing experience and the level of assistance that they received. Based on the results of the questionnaires, the Group identifies targeted training plans for sales staff, aimed at enhancing skills through training programmes that are as customised as possible to individual needs.

Over 1,500 visits have been carried out during the last three years; the results of the investigations have also allowed the Group to plan the sales ceremony in the best possible way, differentiating it for the different brands in order to better enhance the distinctive characteristics of each brand.

The Group's attention to customer needs is also reflected in its focus on **after-sales services** and **return management policies**. For some years, customers have had the opportunity to exchange goods at any single-brand boutique, regardless of where the purchase was made. Moreover, in the case of returns due to product defects, company policies have been defined that offer, following an objective assessment of the defect, the ability to make a return without the need to present a receipt, or, if the customer does not live near a single-brand boutique, the goods can be collected free of charge from the customer and they can make a purchase on the Group's website.

Finally, to further improve the level of service and to minimise waiting times for customers who have made a return, a company policy has been defined that requires customers to be contacted if the estimated **repair time** is longer than two working weeks. Customers can therefore choose whether to wait for the repair of the product or, alternatively, to receive a voucher to purchase a new product.

The J.P. TOD'S Sartorial Collection

The J.P. TOD'S Sartorial Collection achieves the admirable feat of paying tribute to the history of the TOD'S brand whilst bringing it up to date with the addition of the J.P. initials.

J.P. TOD'S is an exclusive collection of men's footwear and bags, all of which can be customised with different leathers and the option to add the customer's own initials. The purchasing experience takes place at sophisticated J.P. Clubs, which are only found in some of the greatest cities in the world. Right now, the J.P. TOD'S Sartorial Collection is available in the TOD's Milano Spiga, Paris Faubourg, Tokyo Omotesando, Shangai IAPM and Los Angeles Beverly Hills stores. The J.P. TOD'S Sartorial Collection shopping experience is all about sophistication and attention to detail across spaces, furnishings and artwork, while dedicated consultants are on hand to guide customers through the customisation and purchasing process. Moreover, the J.P. TOD'S Sartorial Collection's refined range of the finest leathers - and accompanying colour palette - is brought together in three sample books, giving customers the chance to experience the elegance and quality of the materials used first hand.

The first book is dedicated to Nuvolati leathers, an exclusive TOD'S product created through an expert production process incorporating several phases of hand-dyeing.

The second book focused on a material called English, referring to traditional English split-grain leather, which is available in five colour versions.

Customers have the option to add their own initials to footwear and bags made using the exclusive Nuvolato leather, in order to bring an even more personal touch to their J.P. TOD'S Sartorial product.

Two books detailing the production process help the customer to understand all the various personalisation options. Customers can choose from between one and four letters, with or without punctuation, either embossed or painted on in silver. The initials can be placed on the upper, heel or welt for footwear and on the handles or strap for bags.

Digital's increasingly central role in the TOD'S brand experience

A sales ceremony that lives up to the Group's values and customer expectations is just one of the ways in which TOD'S focuses on its customers: the group's primary objective is, in fact, to accompany the customer throughout their journey, offering an increasingly evolved and rewarding brand experience. Consequently, the Group is working to achieve ever greater **integration of digital in its strategies**, reducing physical distances in its interaction with customers, allowing them to feel closer and closer, indeed at the very centre of the brand.

In this regard, the group has launched a multi-channel approach, which will lead to the progressive release of initiatives aimed at creating a more fluid customer experience between the physical and digital channels, for example by offering customers the possibility to view online products in the nearest boutique and to reserve products at the most convenient store, or to buy online from the boutique.

Customisation: the offer of unique products

The utmost expression of the customer's central importance in the Group's strategies is represented by the ability to offer customers the possibility to design the products they wear: feeling part of the creation process, the customers enjoy a unique experience, leading them to identify themselves with the brand.

With this in mind, TOD'S Group offers its customers the possibility to customise certain products, increasing their intrinsic value and making the shopping experience even more special.

MyGommino

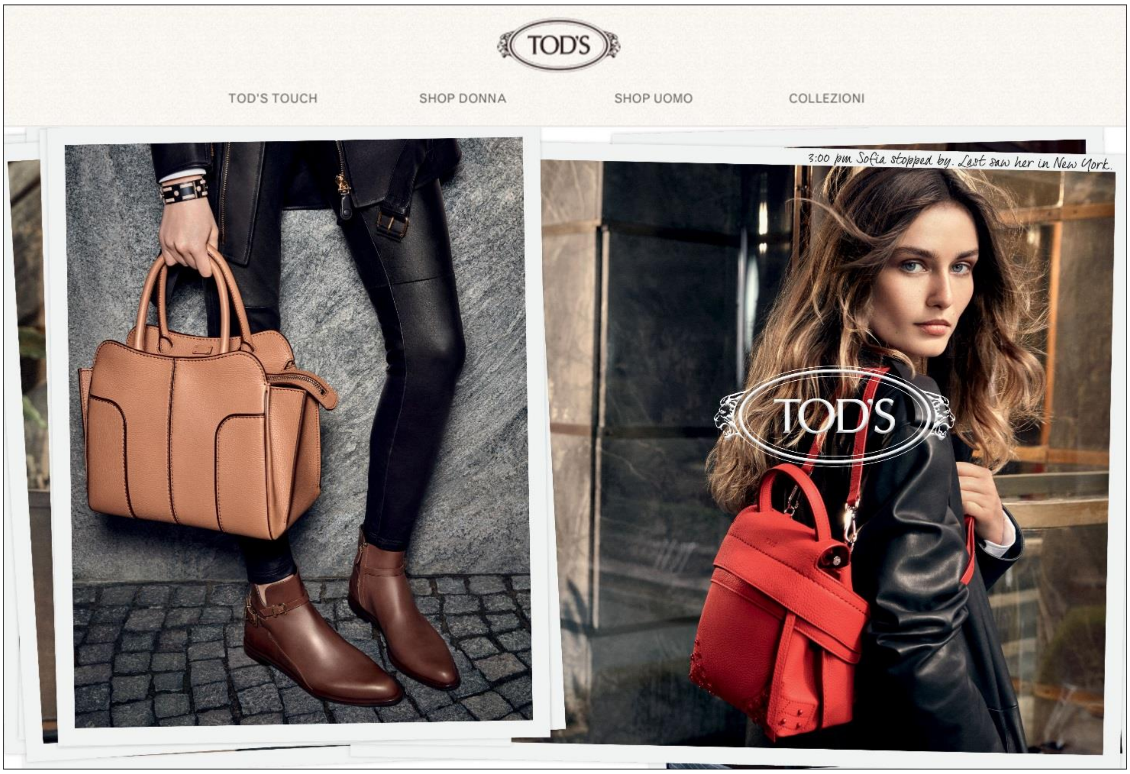
The iconic Gommino moccasin is one of the stars of the TOD'S brand customisation service. Available in TOD'S boutiques and online, the "**My Gommino**" programme allows customers to create their own versions from millions of available combinations. In addition to the material and colour, they can also choose details such as stitching, the strap or toecap and can even customise shoes by changing the colour of the rubber or adding their own initials. The product is handmade with care and passion by TOD'S artisans and can be picked up at any of the brand's single-brand stores or sent directly to the customer's home.

HOGAN By You

HOGAN By You is a made-to-order service that allows you to customise iconic models and new projects by choosing their distinctive elements and adding exclusive details such as symbols, numbers and letters.

From season to season, new talents are involved and invited to express their personality with HOGAN By You.
The customisation service is available on the hogan.com website and in all the brand's single-brand boutiques thanks to a dedicated web app; initially designed only for women, since January 2018 it has also been extended to men's products.

As part of the digital shopping experience, in 2012, TOD'S single-brand e-commerce channel was launched in the United States. In 2013, through the TOD'S Group e-commerce platform, managed by partner Italian Touch Srl, single-brand online stores were also launched for the HOGAN, FAY and ROGER VIVIER brands. The Group's brands' e-commerce sites, which are constantly updated and offer fast, immediate navigation that aims to perfectly combine the brands' storytelling with the presentation of products from the latest collections, operate in 31 countries worldwide (9 of which were added in 2017) with a main focus on the markets of North America, Europe and China. Major new openings are planned in Asia in 2018 and 2019. The Group is increasingly focused on the mobile experience and on providing customers with impeccable assistance through internally managed customer service.



At an organisational level, the Group's investment in the digital world is growing, with the gradual addition of highly specialised figures: the number of resources dedicated to digital within the brand teams is in fact constantly increasing (+20% in 2017 and +30% expected in 2018 between the headquarters and branches). The sales performance of the direct online channel recorded growth of +100% in the 2015-2017 three-year period.

4. Ethics

***Ethics** are at the heart of all of the TOD'S Group's business activities, encapsulating all the principles to which the Group strives to adhere as it pursues its objectives. Ethical principles are of fundamental importance for the Group and its stakeholders and represent a vital element in day-to-day internal and external relations.*

These principles enable the Group to operate transparently and safeguard and protect all people with whom it interacts and indeed the environment in which it operates.

4.1 Human resources

The TOD'S Group is well aware of the importance of its people and recognises that the most influential factor in the success of any company is the people that show hard work and commitment in contributing to the development of the Group and the creation of value in the medium and long term.

TOD'S has developed a working environment in which the **well-being** and **professional development** of its employees play a vital role in building a relationship founded on trust and mutual respect - a bond that goes beyond the standard professional relationship. For this reason, TOD'S works hard to provide a stimulating, professional, meritocratic, healthy and safe working environment that allows employees to freely express their talent and feel valued and appreciated.

Workforce characteristics

As at 31 December 2017, the **TOD'S Group employed 4,627** people, a slight increase (+3.2%) on the previous year. The percentage of employees based in Italy stood at around 46%, confirming the Group's strong bond with Italy.

TOD'S Group employees divided by region

No. of employees per region	12.31.17				12.31.16			
	Men	Women	Total	Percentage	Men	Women	Total	Percentage
Italy	944	1,191	**2,135**	**46.1**	900	1,162	**2,062**	**46.0**
Europe	297	747	**1,044**	**22.6**	247	723	**970**	**21.6**
Americas	119	103	**222**	**4.8**	115	112	**227**	**5.1**
Greater China	214	604	**818**	**17.7**	206	634	**840**	**18.7**
Rest of the World	82	326	**408**	**8.8**	81	305	**386**	**8.6**
Total	**1,656**	**2,971**	**4,627**	**100.0**	**1,549**	**2,936**	**4,485**	**100.0**

Given the very nature of the Group's activities, the percentage of employees working in retail activities stood at **47%** of the total at the end of 2017.

Women represent **64.2% of the total workforce** and generally outnumber men in almost all professional categories.

The professional category of "**white collar workers**" has the largest number of staff members (2,888), followed by blue collar workers (1,373). These proportions are to be expected given the Group's sector of operation.

The age range into which most employees fall is the **30-50** bracket, which encapsulates **64%** of the total workforce. This is followed by the **<30** bracket, demonstrating the Group's focus on investing in young talent.

Attracting talent

Attracting talented people is an objective of fundamental importance for the TOD'S Group, given that this is the only way to ensure that the standard of the company's day-to-day activities is maintained. For this reason, the Group takes great care in recruiting and selecting talent, adopting consolidated company processes designed to clearly define every stage of the recruitment process.

Over the course of 2017, 1,556 new recruits **joined the TOD'S Group**, roughly 54% of whom were under the age of 30. A total of 1,416 employees left the Group, meanwhile, equating to **outbound turnover** of 30.6% (a slight decrease on the 30.8% registered in 2016). This figure rises to 48.6% considering solely staff members under the age of 30. In terms of outgoing staff members, there were 751 **voluntary resignations** in 2017, equating to a resignation rate of 16%.
The size of these percentages is largely attributable to retail staff joining and leaving the company, which is an inevitable part of company life given the Group's sector of operations.

Recruitment and departures of TOD'S Group staff - 2017

Gender	Incoming employees 2017				Outgoing employees 2017			
	<30 years	30-50 years	>50 years	Total	<30 years	30-50 years	>50 years	Total
Men	327	193	13	**533**	233	170	21	**424**
Women	507	470	46	**1,023**	455	474	63	**992**
Total	**834**	**663**	**59**	**1,556**	**688**	**644**	**84**	**1,416**
%	**53.6**	**42.6**	**3.8**	**100**	**48.6**	**45.5**	**5.9**	**100**

Attracting young talent: working with schools and universities

Every year the TOD'S Group's HR Department organises for the company to take part in **careers days** and **job fairs** at leading Italian and international universities, in order to forge contacts with the most promising talent from the world of schools and academia.

More specifically, the People Excellence department plans strategic partnerships with the world of academia and the main social recruiting platforms, focusing on geographical areas considered crucial to the development of the business.

Over the course of 2017, the Group met students at specially organised events at a number of prestigious Italian and international universities including the Bocconi University, the Marche Polytechnic University, the University of Bologna and LUISS in Rome. In total, these events saw the Group come into contact with around 10,000 students, 500 of which it met directly via presentations and special meetings.

During these events, the Group gathered over **600 CVs** and offered students the chance to have individual meetings, which gave the youngsters the chance to gain direct insight into the world of work through an international organisation like TOD'S.

A number of important **agreements** between the Group and **academic institutions** continued in 2017. In Italy, the multi-year agreement with the Bocconi University continued. This aims to support research, educational and institutional activities in the Fashion and Luxury Management sector and features a number of opportunities for dialogue. As well as seeing TOD'S participate in all events organised by the university both at the Milan headquarters and around the world, this agreement allows the Group to plan student visits to its premises and engage with them in employer branding activities. Also in 2017, the Group organised a number of in-company training days, as a way of introducing the Group's brands to the students. Meetings with company managers helped to convey the essence of TOD'S to the youngsters. These activities were organised both in the Group's Italian headquarters and in a number of overseas offices, focusing on the most important markets such as Hong Kong, Shanghai and Paris.

Through these initiatives, the Group was able to interact with large numbers of young people, some of whom were offered the chance to enter into a professional relationship with the Group, with **112** internships offered in 2017.

Over half of the interns who completed an extra-curricula period of work experience with the Group then joined the company on fixed-term supply contracts or direct employment contracts.

As part of its efforts to bring the professional and academic worlds closer together, the Group strives to work with universities in order to develop and promote Master's courses providing training in business management, fashion and luxury.

One example of this was the **MAFED** (Master in Fashion Experience and Design Management) **project**, which focused on the HOGAN brand and involved devising a penetration strategy for the EMEA and Chinese markets at a specific target price. The project saw an international work group team up for a semester, at the end of which their business plan was presented to the Group's Board.

Over the course of 2017, the Group focused its attention on the new World Bachelorin Business (**WBB**) academic project. This four-year study programme incorporates placements at three different universities in three different continents: Bocconi, Los Angeles California and Hong Kong.

The Group's collaboration with the University of Camerino (UNICAM) also continued this year. As a member of the committee of benefactors, TOD'S has the aim of guiding academic programmes in the direction of real market needs. This year, TOD'S organised a meeting at its headquarters with other business figures from Central Italy. Furthermore, the Group trialled some additional, innovative collaborative projects, one of which saw students from the IT and Maths Faculty get the chance to study, develop and create complex colour-matching software for use in footwear manufacturing.

2017 also saw a pilot project around the theme of **moving from school to work**. The Group sealed an agreement with a school in the Macerata area with the aim of helping young people make their way in the world of work. The project saw seven third-year students each spend two weeks at the company, for a total of around 80 hours.

The initiative was a great success for all involved and, as a result, efforts were made to map out the areas/company offices which could be added to the project over the coming years. A timescale was set out for each area/office, based on their individual business needs.

In order to attract the creative talent required by the Group, a partnership with the Istituto Maragoni in Milan was launched in 2017, with a particular focus on students from the Accessories Management Master's course. As part of the project, a group of international students were tasked with reinterpreting some of the company's most iconic pieces. The creations were then judged by an internal panel and the best three were awarded scholarships. In addition to the monetary prize, the overall winner was given the chance to complete an internship in a design department with one of the Group's brands.

As regards the Group's search for excellent and new talent in technical fields, TOD'S has important partnerships with Arsutoria in Milan and the CERCAL footwear school in San Mauro Pascoli. Pattern-makers and product developers from Arsutoria attended courses and technical seminars focusing on footwear and looking at specific constructions in some depth, while a number of internships were launched for San Mauro Pascoli's CERCAL school - another beacon of excellence in terms of providing technical training in the footwear industry.

Launched in September 2016, the "Workshops" programme - run with support from the National Active Labour Policy Agency (ANPAL) - is now a central part of the Group's training programme *(six-month programmes focusing on leather goods and Italian footwear manufacturing)*. The programme was further consolidated over the course of 2017, with a particular focus on developing the next generation of artisans, partly to prepare for the upcoming launch of the new Arquata facility, which has been built in record time after the

earthquake that hit the mountainous areas of the Marche region in 2016. Five workshops have been built, two of which are still being completed. One workshop, which was created in collaboration with IAL Marche *(a professional development body affiliated with CISL Marche)*, saw 60 interns obtain a professional qualification for them to work in footwear manufacturing. Many of the interns involved in the workshop scheme were later hired by the Group.
Last but not least, the Group also took part in Italian Employers Day between April and June. These recruitment events took place across Europe, organised by the European Network of Public Employment Services

The TOD'S Group believes that it is vitally important to help new recruits as they settle into the Group, particularly as a way of conveying the core values necessary to uphold the high qualitative standards the Group demands. The aim of the TOD'S Group is to spread its core values around the world. Two of these are the Italian spirit - *italianità* - and Italian manufacturing - Made in Italy-, both of which are intrinsically linked to the TOD'S Group, permeating everything the organisation does and guiding all corporate and retail activities. All Italian employees are offered special induction programmes designed to convey these values and strengthen the staff's sense of belonging to the Group.

Promoting the Group's values among new recruits

The challenge of preserving the values of *italianità* and Italian manufacturing in the markedly international environment in which the Group operates is a significant one. In order to ensure that these values can be taken on board and promoted by all employees in equal measure, regardless of where they come from, TOD'S launched the **Italian Orientation** programme. Established a number of years ago, the programme offers new retail recruits the opportunity to receive company training paired with a cultural programme. For Italian employees, the three-day programme includes visits to the TOD'S production site in the Marche region and the corporate offices in Milan, while employees of the Group's international offices begin with a visit to Rome - including a trip to the Colosseum - before visiting the Marche production site and Milan corporate offices and rounding the trip off with a visit to Villa Necchi in Milan. This initiative is offered to all store managers and the most deserving store manager assistants and sales assistants. By alternating cultural activities with opportunities for fun and relaxation, international employees thus have the chance to completely immerse themselves in the Italian culture and lifestyle, gaining first-hand experience of the values that define the TOD'S approach to its own activities and how it tackles relationships with customers.
The programme also represents a unique experience for Italian staff, who get the chance to interact with colleagues from all over the world, promoting mutual cultural exchange. It is an initiative that underscores the ongoing TOD'S commitment to creating an increasingly cohesive, international team.

Equal opportunities and non-discrimination

The Group bases its approach to managing personnel around the principles of diversity and multiculturalism. The chance to work with people of different nationalities, with diverse cultural and professional backgrounds, is of vital importance to an international organisation like the TOD'S Group. By promoting these principles, the Group boosts its personnel's ability to interact effectively, thus optimising their day-to-day performance. At the same time, the diversity of the Group represents a precious tool to help the organisation understand and respond to the unique needs of different markets.

The Group's desire to respect these values is underscored in the **Code of Ethics**, in which the Group commits to ensuring that **diversity** and **equal opportunities** are respected at every level of the organisation, with the principles of meritocracy upheld and all forms of discrimination rejected, including those linked to age, gender, sexual orientation, race, language, nationality, political opinions, trade union affiliations and religious beliefs.

As at 31 December 2017, **64.2% of the entire Group workforce** was made up of women, as has already been mentioned. This strong female presence is seen in all regions in which the Group operates. In the most senior professional categories (executives and managers), the split between men and women is more equal, although there are slightly more women here too (56%).

The Group's willingness to offer **part-time** contracts is another illustration of its commitment to equal opportunities. As at 31 December 2017, 7.7% of all Group employees were on part-time contracts.

Moreover, the Group offers its employees the chance to take **parental leave**, in accordance with laws and regulations in the various countries.

Finally, as at 31 December 2017 the Group employed 104 people belonging to **legally protected status** (up from 96 as at 31 December 2016). The Group has also signed a number of agreements with Employment Centres in order to progressively incorporate these people into the Group's companies.

Remuneration and benefits

The TOD'S Group's **remuneration policies** are also centred around the values of equal opportunities and equity. All policies are designed to reward the skills of each employee.

Every year, the Group companies set out meritocratic remuneration policies, with direct involvement from managers, who are asked to identify personnel deserving of a pay rise. Moreover, in addition to standard salaries, the Group also sets out variable retribution plans (Management by Objectives or MBO) on an annual basis. These are assigned to management personnel on the basis of targets achieved over the course of the year.

As regards the **salaries of new recruits**, the TOD'S Group offers salaries in line or above the minimums set out by law or collective bargaining agreements in the various countries in which it operates. This applies to both men and women.

Ratio between base salary of new recruits[3] and minimum local salary[4], by significant operational location

Significant location	2017**		2016*	
	Men	Women	Men	Women
Albania	1.17	1.17	1.10	1.11
Austria	1.12	1.09	*n.a.*	*n.a.*
Belgium	1.23	1.23	1.25	1.25
China	1.30	1.30	1.37	1.37
Korea	1.22	1.22	1.31	1.31
France	1.26	1.26	1.27	1.27
Germany	1.22	1.22	1.22	1.22
Japan	1.64	1.64	1.64	1.64
Hong Kong	2.17	2.23	2.12	2.12
India	5.41	5.36	4.82	5.10
Italy	1.27	1.26	1.27	1.24
Macau	2.32	2.34	2.16	2.16
Netherlands	1.06	1.05	1.05	1.05
United Kingdom	1.34	1.34	1.34	1.34
Singapore	2.27	2.41	2.18	2.18
Spain	1.96	1.96	1.96	1.96
Switzerland	1.07	1.07	*n.a.*	*n.a.*
United States of America	1.87	1.86	1.86	1.87
Hungary	1.00	1.00	*n.a.*	*n.a.*

* 2016 data refers to 95% of the Group workforce.

** 2017 data refers to 99.9% of the Group workforce.

There are slight differences in the **salaries and remuneration** of male and female staff across the various professional categories. This is inevitable given the different roles and responsibilities held by employees. While there are some anomalies in individual regions in terms of both base salary and overall remuneration, the analysis reveals no particular disparity between men and

[3] "Base salary of new recruits" refers to the lowest salary paid to new recruits in the year in question.

[4] "Minimum local salary" refers to the minimum salary permitted according to the collective agreement (where applicable) or regulations valid in the various countries in which the Group operates.

women (neither in 2017 nor 2016). In Europe, the USA and Greater China, the reports for both years show that women earn slightly more than men in the professional category of “white collar workers”.

Finally, as regards the benefits offered, the Group strives to minimise inequality and standardise its offering for all staff members, regardless of their contract type or area of expertise. In a limited number of cases regarding some of the Group’s companies, additional benefits of a social and financial nature are available only to full-time staff. These include health and life insurance and pension contributions.

Talent development

Employee **training** has a crucial role in the present and future success of the Group. On the one hand, training is an important means of professional development and enhancement for employees. On the other, it represents a valuable way of spreading the Group’s values, furthering its strategies and ensuring its workforce has the necessary skills.

In addition to induction programmes offered to new recruits, the Group has always invested in developing the technical and professional skills of all its employees, offering training courses tailored as closely as possible to the specific needs of both employee and company.

In 2017, the TOD’S Group delivered over 36,700 hours of training (an increase of around 9% on the total for 2016). Of this, around 39% was made up of corporate training, with the other 61% consisting of retail training.

Hours of training delivered, by employee gender and type of training (corporate/retail) 2017 and 2016

No. of Hours	2017		
	Men	Women	Total
Corporate	8,154	6,280	**14,434**
Retail	6,365	15,919	**22,284**
Total	**14,519**	**22,199**	**36,718**

No. of hours	2016*		
	Men	Women	Total
Corporate	6,063	5,851	**11,914**
Retail	4,019	12,375	**16,394**
Total	**10,082**	**18,226**	**28,308**

** 2016 data refers to 98% of the Group workforce and includes 5,122 hours of retail training which was unable to be divided by gender.*

Retail training

The Group has devised a retail training programme known as **Sales Gym**, the objective of which is to reinforce brand identity and optimise sales performance. Training is delivered via a coaching-style approach to strategic figures such as retail operation managers, store managers and assistant store managers, with the aim of supporting their management activities and developing the resources available to them. Individual action plans are created for each employee, with shared objectives set and space for feedback.

The issue of multiculturalism has also been tackled in the retail forum through activities designed to optimise staff's ability to accommodate international customers. The objective of such activities is to improve staff's linguistic abilities within the context of the selling ceremony and - more importantly - to help staff understand cultural rules better, thus allowing them to build a closer relationship with customers, with beneficial consequences for both sales and customer loyalty. These training programmes have been particularly successful in building understanding of Chinese, Russian and Arabic cultures, with our salespeople gaining a greater understanding of customer expectations.

In the field of corporate training, the Group continued training activities designed to boost soft skills in 2017. Soft skills are useful not only in terms of increasing employee productivity and efficiency, but also as regards improving the working environment and interpersonal relationships. Through these training programmes, which were intensified during 2017, the Group has focused on the following areas: engagement and communication, personnel management, delegation and leadership and cohesion and team spirit.

Moreover, in 2017 training courses encompassing languages, health and safety and driving safety were delivered across all company levels. The courses contained modules designed to tackle the specific training needs of the personnel involved.

Training programmes also continued for key figures in the production process, with coaching sessions an important part of this. The main figures involved were operational unit managers and line managers from the Footwear Department, with the aim of supporting their efforts to manage and develop human resources. The Group also identified and trained other figures from the artisanal side of the business, using a Train the Trainer scheme designed to help them plan and create a training plan, thus optimising the learning process for new interns or apprentice artisans. The main aim of these activities was to share the required qualitative standards in terms of processing raw materials and semi-finished products. This also helped to keep the company processes up to date.

Particular focus was placed on the subject of negotiation, with training delivered to staff members employed in the procurement department. Various methods for negotiating with suppliers were presented, with the idea of promoting partnerships encouraged over a price-only approach.

Much of the Group's training activities in 2017 focused on IT, with the dual objective of boosting knowledge of IT equipment used within the business while improving company performance through more widespread sharing of data and targets to be achieved. By way of example, the Group organised a number of workshops around the fields of digital and e-commerce, in order to provide training to employees on new processes introduced by the online side of the business, particularly those linked to merchandising.

In order to monitor the ability of retail employees and ensure constant improvement, the Group regularly assesses employee **performance** so as to be able to set individual targets and ensure necessary development.

In 2017, 52% of all employees underwent **performance appraisals** (this figure was 53% in 2016, which is roughly in line with the 2017 figure). The percentage was particularly high for management staff, 87% of which underwent appraisals. The Group is currently developing an integrated appraisal system which is to be piloted on the Italian management team before being rolled out to the rest of the company (blue collar workers excluded) by 2020. This means that around 80% of employees will undergo performance appraisals.

In addition to these formal performance appraisals, the Group strives to promote continuous dialogue between management and employees, in order to encourage an ongoing flow of information designed to facilitate constant qualitative improvement.

In relation to the performance of retail employees in particular, the Group has adopted an **incentive programme** split by region. The aim of this is to create a fair remuneration system for store staff. The plan features two incentive tools. Sales assistants are entitled to commission, which is paid every month and dependent on them hitting sales target as set by the regional management. In addition to this, store management staff are eligible for bonuses, which are awarded on a weekly basis and are linked to performance appraisals and qualitative and quantitative indicators.

Employee well-being

The TOD'S Group's success is closely linked to the happiness of its workforce and - for this reason - one of its main objectives is to ensure the **well-being of its employees**, in order to generate value in the long term. Employee well-being is not just about professional fulfilment, but also the ability to ensure a good work-life balance that never oversteps the mark.

The Parent Company TOD'S supports a number of initiatives in this field. Firstly, TOD'S offers its employees a large range of services at the Group headquarters, including:

- a free nursery for employees with children between the ages of two and six. Access is reserved for the first 28 children who qualify based on a ranking system drawn up every year according to specific criteria;
- a free gym that can be accessed by employees between set hours (during the lunch break and after 18:00), with the option of attending courses running on a weekly schedule;
- a company restaurant serving subsidised meals, using organic and km-0 products;

- a free media library offering books and DVDs.

In 2008, the Group launched its Welfare programme in Italy, with the aim of improving the well-being of employees and their families. In 2017, the project featured a range of initiatives providing economic support to employees, including:

- an annual gross contribution of €1,400 for employees belonging to the Footwear Industry collective bargaining agreement (CCNL);
- a contribution towards employee costs relating to the purchase of school and university books for children ranging from primary school to university age[5];
- insurance for employees and their immediate families covering the cost of major specialist operations, dental treatment, contact lenses and glasses, diagnostic tests, specialist visits and paediatric preventative healthcare[6].

For part-time employees, the €1,400 contribution is paid on a pro-rata basis depending on the number of hours worked.

Health and safety

Employee well-being is also dependant on the provision of **adequate health and safety conditions** at the workplace, across all Group facilities. TOD'S therefore places great importance on overseeing these issues, in order to prevent and minimise accidents and injuries.

The entire Group adheres to all health and safety laws and regulations, adapting to the specific legislation in force in the various countries in which it operates. In order to improve the way it deals with this issue, the Parent Company TOD'S S.p.A. has internal reporting systems around Health and Safety in the Workplace. These are regularly sent to control bodies. As part of the Group's commitment to transparency, the Prevention and Protection Service Manager is interviewed by control bodies every week.

In 2017, 77 injuries were reported. Of these, 51 were sustained at the workplace, with 26 sustained during travel.

TOD'S S.p.A. works hard to provide guidance and training around health and safety. All employees benefit from training programmes focusing on the prevention of injuries and work-related illnesses and split between classroom learning and e-learning.

[5] This contribution was not paid to employees of Del. Pav. S.r.l.

[6] This cover is not applicable to employees on fixed-term contracts or employees of Del. Pav. S.r.l., who are covered by the insurance provided by the relevant collective bargaining agreement.

4.2 Environment

The TOD'S Group is committed to respecting and protecting the environment by reducing the environmental impact of its activities, through the optimisation and rationalisation of all processes that may have some impact on the ecosystem.

Every year, TOD'S undertakes a wide range of initiatives in this field. More specifically, the Group is active in devising and developing projects designed to energy saving and efficiency in its production and commercial sites. This commitment is accompanied by further ambitious objectives such as the responsible management of water resources, controlling waste production and the use of recycled materials for the furnishings of its stores.

Responsible management of resources[7]

Energy consumption

Over the course of 2017, the TOD'S Group's **electricity** consumption was 126,509 GJ (a slight decrease on the previous year), while **consumption of natural gas** was equal to 24,456 GJ (a 16.8% increase on 2016 as a result of unfavourable weather conditions affecting some of the Group's production sites in Italy in early 2017).

In addition to reducing energy consumption, the Group has been focusing on **using energy from renewable sources** for a number of years. In 2011, TOD'S installed a photovoltaic facility at its headquarters, with almost all of the energy produced consumed by the company. The plant has an installed capacity of 956.88 kWp. Over the course of 2017, the photovoltaic facility produced around 4,100 GJ of energy (an increase of 10% on the previous year), satisfying over 15% of the headquarters' overall energy needs. In 2017, the diesel fuel consumption was 12,800 liters (a decrase of 14.7 % on the previous year).

TOD'S also has geothermal facilities at its headquarters which are used to provide sustainable power for its air-conditioning systems.

[7] With reference to the availability and materiality of the data, the sample taken into consideration - which equated to 4,627 employees in 2017 - presents the following limitations:

-electricity consumption refers to 99.2% of the sample evaluated;

-water consumption refers to 99.2% of the sample evaluated;

-the production and disposal of waste refers to 99.2% of the sample evaluated;

Where data was not readily available, estimates have been used.

Energy consumption by type (2017 - 2016)

Typology of energy consumption (GJ)	2017	2016
Natural gas *	24,456	20,933
Electricity **	126,509	128,307
Energy internally produced by photovoltaic system **	4,088	3,718
Total	**155,053**	**152,958**

**For natural gas, 1m^3 = 0.03901 GJ.*

***For electricity, 1kWh = 0.0036 GJ.*

Furthermore, the Group's commitment to reducing energy consumption in 2017 was illustrated by a range of initiatives focusing mainly on Italy, the location of the Group's headquarters and main production and logistics facilities. This process is the natural consequence of the application and structured management of the energy efficiency action plan produced following an Energy Audit carried out in 2015. In addition to the requirements set out in Legislative Decree 102/2014, this audit also analyses the energy consumption of all production and logistics sites owned by the Group. This action allowed the Group to obtain two results of great importance. The first was the production of a detailed site-by-site energy overview, achieved through regular checks and documentation of electricity usage and resource consumption. The second, meanwhile, was the production of a general overview of energy consumption and management, which allowed the group to plan and adopt strategic steps designed to achieve increasingly impressive energy efficiency and optimisation objectives.

At its Italian headquarters, the Group oversees a range of initiatives in line with **design guidelines** designed to increase the energy performance of company buildings, including measures such as:

- equipping buildings with high-efficiency insulation;
- installing photovoltaic systems;
- using geothermal systems for air-conditioning and heating;
- replacing traditional lightbulbs with LED bulbs.

These design guidelines, which were already used in 2014 and 2015 in the construction of a building within the complex encompassing the headquarters, were again adopted in the construction of the new facility in Arquata del Tronto in the Marche region (completed in December 2017). This facility was built according to the latest energy sustainability principles:

- LED lighting only used (internal and external spaces);
- movement sensors for turning lights on and off;
- high-performance heart pumps used for heating, plus high-efficiency condensing boilers powered by methane for added support during colder periods;
- air treatment and aspiration systems fitted with inverter motors;
- implementation of a surveillance and monitoring system for lighting and heating systems;
- creation of a 50 KwP photovoltaic system.

2017 also saw the completion of the project to add a roof to the production facility in Comunanza, in the Marche region. Similar projects have already been carried out at the production sites in Montecosaro and Tolentino, both in the Marche region. This has improved insulation, with benefits in terms of reducing energy consumption and greenhouse gas emissions.
As regards its production sites, the Group has undertaken the significant task of replacing the majority of its old motors with more modern motors fitted with inverters, a more flexible technology which enables operators to alter the motors' function on the basis of actual needs.
Equally extensive efforts continue to be made to boost the energy efficiency of the Group's industrial machinery. In 2017, the Group replaced a furnace with "vacuum chamber" installed in an assembly line in the Comunanza facility.
A number of additional interventions are planned for 2018, including the installation of electrical meters on all main electrical lines, in order to ensure regular and comprehensive monitoring of energy consumption at the Group's industrial sites, headquarters and main stores and Italian facilities.
Finally, the Group is working to reduce its energy consumption in stores by introducing LED technology to light rooms and display cases in sales areas.

Reducing energy consumption: a long-term commitment

The Group's commitment to reducing energy consumption is further illustrated by the feasibility studies it is running and the action it has planned for the near future.
One of the Group's most important projects is that focused on **monitoring energy consumption** at **industrial sites** through special measuring equipment (MID multimeters). This initiative will allow the Group to quickly monitor and analyse energy consumption and identify appropriate optimisation work to be carried out.
At its headquarters, the Group is working to increase the efficiency of its external **lighting** system by replacing all lightbulbs at all buildings in the complex with LED bulbs. Fluorescent ceiling lights at the Comunanza production site and Monteprandone logistics site will be replaced with LED lights.

Water consumption

As regards **water consumption**, the TOD'S Group has always worked hard to ensure this is constantly monitored and plans technical checks in the event of significant changes to traditional consumption levels.

Over the course of 2017, the Group's water consumption levels were equal to 176,771 m^3 (a drop of around 13% in comparison with 2016).

With consideration to the range of activities undertaken by the business, these consumption levels are almost entirely attributable to the Group's headquarters and production sites, with only a small percentage deriving from DOSs and showrooms. In terms of water sources used, around 40% of water resources comes from the subsoil, with the remainder drawn from aqueducts. The Group's commitment to responsible water management is formalised in guidelines adopted by company headquarters. This is further underpinned by the decision to use water from the subsoil for all irrigation systems (where present).

Over the course of 2017, the overall quantity of water released back into the environment was estimated at 29,200 m^3, in line with the previous year. This was made possible thanks to the condensation mechanism of the Group's refrigeration systems. Once used, water is collected in fire-protection tanks. When the tasks reach maximum capacity, the excess water is released back into the ground.

Water used by source type[8] (2017 - 2016)

Typology of sources (m^3)	2017	2016
Water from subsoil	71,723	70,085
Water from aqueduct	105,048	132,898
Total	**176,771**	**202,983**

In order to rationalise its water usage, the Group has planned measures to increase the efficiency of the domestic hot water supply at its headquarters.

Production and disposal of waste

The Group recognises the importance of ensuring the responsible management of the **waste produced** as a result of its activities. Where possible, it tries to promote recycling in order to reduce the quantity of waste requiring disposal.

During 2017, the TOD'S Group produced approximately 1,709 tonnes of waste (a drop of around 11% in comparison with 2016). Again, commercial and production sites in Italy account for the

[8] Given that water used for the condensation process does not have its properties altered, it is therefore not considered waste water and thus the quantity of such water released back into the ground is not included in the sample. The figure in the table relating to the quantity of water drawn from the subsoil has had the quantity of water released back into the ground in m^3 subtracted from it.

lion's share of this. Virtually the entirety of this figure - 99.8% - is made up of non-hazardous waste.

As regards disposal methods, over 58% of the waste produced by the Group has been stored with a view to recycling in the future. Waste disposed of in landfills was generated by stores and showrooms in other countries.

Typology of produced waste (ton)	2017			2016		
	Hazardous	Non-hazardous	Total	Hazardous	Non-hazardous	Total
R13*	0.4	919.8	**920.2**	1.3	971.6	**972.9**
D15*	2.3	118.6	**120.9**	4.8	13.5	**18.3**
D8 e D9*		24.3	**24.3**		56.1	**56.1**
R4*		1.9	**1.9**		3.5	**3.5**
R5*		0.7	**0.7**			
Landfill		517.0	**517.0**		764.1	**764.1**
Total	**2.7**	**1,582.3**	**1,585.0**	**6.1**	**1,808.8**	**1,814.9**

** R13: storage for recycling at a later date; D15: preliminary deposit ahead of disposal operations; D8 and D9: biological treatment and chemical/physical treatment; R4: metal recycling; R5: recycling/reuse of other non-organic substances.*

In addition to the quantities shown in the above table, 2017 saw around 0.2 tonnes of hazardous waste and around 124 tonnes of non-hazardous waste generated in the Group's production sites in Albania and Hungary. Considering the activities undertaken at these sites, the quantities of waste generated mainly consist of leather and packaging waste.

Material consumption

Given the Group's area of operations, significant quantities of **office materials and product packaging materials** are used. Therefore, the Group's places great importance on carefully managing the consumption of such materials as part of its strategy to minimise and rationalise environmental impacts linked to this.

The Group prioritises sustainable materials, particularly those that can be recycled and that come from responsible sources. It also checks whether its suppliers hold relevant certifications.

Main materials used by type (2017 - 2016)

Typology of materials	Kilos 2017	Kilos 2016
A4 Paper	64,610	68,294
of which FSC/PEFC	*7,060*	*4,102*
A3 Paper	2,012	2,243
of which FSC/PEFC	*634*	*576*
Shopping bag	235,299	256,196
of which FSC	*127,026*	*97,343*
Cardboard Box	531,000	523,000
A5 Paper (FSC)	1,166	1,333
B5 Paper (FSC)	16	37
Total	**834,103**	**851,103**

0% of the reported materials is renewable.

Greenhouse gas emissions[9]

The main objective of the Group's strategy as regards environmental protection and reducing the impact of its activities is to reduce polluting emissions in the atmosphere.

The Group recently began to monitor its greenhouse gas emissions. This enables the Group to plan future initiatives and projects to ensure ongoing reductions in environmental impacts.

The table below details the main emissions generated by the Group. In compliance with the Greenhouse Gas (GHG) protocol, the principal emissions reporting standard, the Group's emissions have been divided up by type. Scope 1 emissions derive from the Group's direct resource consumption, Scope 2 emissions are associated with electricity generation and Scope 3 emissions are linked to employee mobility.

[9] With reference to the availability and materiality of the data, the sample taken into consideration - which equated to 4,485 employees in 2016 and 4,627 employees in 2017 - presents the following limitations:
- emissions deriving from electricity consumption (Scope 2) refer to 99.2% of the sample analysed for both years;
- emissions deriving from fuel consumption in hire cars (Scope 3) in 2016 refer to 98.8% of the sample analysed;
- emissions deriving from kilometres travelled by train and aeroplane as part of work trips (Scope 3) refer to 98.8% of the sample analysed for 2016.

Where data was not readily available, estimates have been used.

CO2 emissions (2017 - 2016)[10]

Footprint (Ton CO_2)	2017	2016
Scope 1	2,189	2,021
Scope 2	15,288	15,614
Scope 3	3,340	3,532
Totale footprint di CO_2	**20,817**	**21,168**

As can be seen from the table above, which shows the Group's greatest impact in terms of C02 emissions, for both years, with reference to Scope 2[11], it was equal to 73% in 2017 and 74% in 2016.

As regards production facilities, an external body was used to calculate Volatile Organic Compounds (VOC) deriving from production, combining channelled emissions and emissions released. For the purposes of this calculation, the body analysed all Italian production sites included in the mass balance sheets, which are used to create the Solvent Management Plan. The 2017 figure amounts to around 26.6 tonnes of VOCs, down from 32.5 tonnes in 2016.

Transport and logistics[12]

Given the highly international nature of the Group, whose extensive distribution network encompasses all the main countries in the world, **transport and logistics** play an essential role in **product** procurement and distribution activities. The Group works hard to minimise the environmental impacts associated with these aspects, while striving to ensure the standard of the service offered remains constant given that this area has a significant bearing on customer satisfaction.

[10] Conversion factors used:
- for diesel and natural gas (Scope 1), conversion factors developed by the European Environment Agency were used [EMEP/EEA Air Pollutant Emission Inventory Guidebook - 2016].
- for petrol and diesel (Scope 1 and Scope 3), conversion factors developed by the European Environment Agency were used [EMEP/EEA Air Pollutant Emission Inventory Guidebook - 2016] and the conversion factors calculated by DEFRA [ghg-conversion-factors-2016update].
- for electricity (Scope 2) conversion factors by Terna [International comparisons – 2015] were used for calculation with the location-based method. However, with reference to the market-based method, emission factors relating to the "residual mix" were used (Source: AIB – 2016 European Residual Mix) where available; elsewhere, the same emission factors used for calculation with the location-based method were used.
- for air and rail transport (included in Scope 3), conversion factors calculated by DEFRA were used [ghg-conversion-factors-2016update].

[11] CO2 emissions calculated with the "location-based method". However, for the calculation of Scope 2 CO2 emissions, both the methods provided by the GRI Sustainability Reporting Standards were used. With reference to the "market-based method", the total emissions of Scope 2 total 24,254 tons for 2016 and 17,472 tons for 2017.

[12] Where data was not readily available, estimates have been used.

As regards the distribution of finished products, in 2017 the overall amount of goods dispatched was equal to around 9,400 tonnes, an increase of approximately 6% on the 2016 figure. The Group works with leading logistics partners for product deliveries via air, sea and - most extensively - road.

In order to plan more precise measures to increase consumption efficiency in the area of transport and logistics, the TOD'S Group is working hard to intensify its monitoring of environmental impacts stemming from transport and logistics, partly in collaboration with its logistics partners. Where possible, these efforts include a greater focus on vehicles with reduced environmental impacts.

In terms of the materials used for packaging, the TOD'S Group is examining a range of innovative solutions designed to progressively reduce environmental impacts in this field. As regards the HOGAN brand, the Group is looking into the possibility of using a special card in its boxes made using seeds. This type of card is 100% **biodegradable**. Once the cardboard is "planted", it has the ability to grow into new plants, thus reducing the environmental impact of the packaging and ideally offsetting part of the Group's overall environmental impact.

5.Solidarity and Italian spirit

More than anything else, the idea of ***Italian spirit*** *- Italianità - has always been intrinsic to the very essence of the Group. TOD'S has forged its world-renowned reputation by drawing values from the country of Italy, using care and skill to make them its own. The Group is hugely grateful for what Italy has given it and thus strives to give back to local areas, providing support for local communities, particularly the most vulnerable in our society, and promoting art and culture in Italy.*

The Group's ***solidarity*** *efforts are not just limited to the Italian peninsula, however, despite this being the place in which its roots are firmly set. Given the strong international dimension of the Group, TOD'S is passionate about the well-being of people all over the world and thus works hard to share the excellence it has achieved and the value it has generated over so many years through a range of global projects and initiatives.*

5.1 Supporting local areas and the country as a whole

The TOD'S Group has always played an active role in supporting the **local areas** in which it operates and indeed the **country** as a whole, with both of these elements having made a vital contribution to its history and values.

The many initiatives in which the TOD'S Group has participated have always been characterised by the following themes, which continue to have a significant influence over the spirit behind such projects:

- a sense of responsibility to give back part of its profits to the local community through participation and acts of gratitude. TOD'S constantly relies on local areas for resources, energy and artisanal skills;
- a commitment to take an active role in the promotion and protection of the Italian spirit and Italian culture around the world, both of which are essential factors in Italian manufacturing and the handmade feel that defines the craftsmanship behind TOD'S products;
- a sense of responsibility deriving from the feeling of belonging to a broad collective and of knowing that it is in a position to help those most in need by supporting organisations and associations operating in Italy and around the world.

Supporting local areas

The Group has supported a range of initiatives designed to make a tangible contribution to and strengthen its strong bond with local communities. A particularly important measure was the decision made at the Shareholders' Meeting of Parent Company TOD'S S.p.A. in 2012 to use **1% of the Group's net profits** to support initiatives designed to help the most vulnerable sections of local society.

Through this initiative - which was launched in 2012 - the Group has been able to collaborate with a range of volunteer associations, providing financial and operational support for their projects and participating actively and passionately in order to promote their work over time. These associations show profound dedication and work ceaselessly to deliver projects across a wide range of areas, including promoting the education and training of young people, helping disadvantaged population sectors and supporting families.

The main projects launched or continued in 2017 with help from TOD'S Group are set out below.

Family initiatives

≈ 15,000

beneficiaries of donations of basic foodstuffs in 2017

Since 2015, the Group has launched a series of initiatives designed to support **families in difficult situations** through partnerships with local religious and non-religious associations and regional institutions, who have taken part in the Group's "solidarity meetings". The Group organises "poverty meetings" in local areas in order to coordinate the work of all participating associations working to help citizens or family experiencing situations of difficulty. Tutoring services are also provided. This initiative is active in Fermo, Civitanova Marche, Comunanza, Comunità Montana dei Sibillini, Tolentino and San Severino Marche.

The Group is active in a range of fields, including food support, covering medical expenses, purchasing medicines, paying domestic bills, contributing to rent costs and providing support in emergency situations such as evictions, as well as initiatives designed to help young people and promote social and professional integration.

In the realm of **food support**, the Group helps to finance a fund whose aim is to help the "*Banco delle opere di carità Marche*" (Marche charity food bank) association, which has been a presence in the Marche region since 2013. The charity food bank, which brings together a range of volunteer associations (over 80 in the Marche region), helps needy families by providing a monthly supply of basic foodstuffs.

In 2017, a total of 660,000kg of foodstuffs and 2,470,000kg of fruit and vegetables were distributed.

In the field of **healthcare**, TOD'S supports associations working to cover the medical costs of families in difficult situations. The Group has set up a fund with the objective of helping disadvantaged local families to maintain an adequate standard of health and - more importantly - to deal with exceptional and sudden situations. The Group has signed a memorandum of understanding with the local public ASUR health facility designed to cover the minimum costs of all healthcare services, with free participation from medical staff on a freelance basis. The aim of this is to ensure that healthcare is effectively supplied to those most in need. The associations are the parties responsible for identifying and proposing the beneficiaries of the initiatives.

135 Medical tests and transport services provided	**20** Orthodontic equipment donated	**50** Specialist visits provided free of charge	**10** Diagnostic radiology tests available

Planned healthcare support measures

The “Il volo delle farfalle” (Flight of the Butterflies) project, meanwhile, is oriented towards disabled people and their families. The project encompasses a series of measures designed and run in partnership with the local “La Crisalide” association. The association provides support to around 160 families residing largely in the areas around the Group’s headquarters in Sant’Elpidio a Mare. The Group’s work with the association - which was launched in 2002 - includes the organisation of a range of activities, all of which are focused on promoting the **social integration** of disabled people. The initiative organises a range of activities, including music therapy, courses encompassing reading and writing, acting, IT, dancing, cooking, singing, rhythmics, music, creative painting and bricolage. The project also helps disabled people create allotments and gardens and organises group outings at weekends, in addition to offering occupation therapy and appointments with pedagogical specialists.

Social integration - disabled people: main results achieved (period: September 2016 - September 2017)

≈ 280
People involved by activity

≈ 570
Meetings by activity

≈ 4,430
Services supplied

As regards **gender-based violence**, the Group financed a range of activities promoted by the anti-violence centre “Percorsi Donna” (Female Journeys) in the province of Fermo in 2017. The centre’s sites in Sant’Elpidio a Mare, Porto Sant’Elpidio and Fermo took part in the project, in collaboration with the *On The Road* association.

Along with the help of a number of regional funds, the Group’s support made it possible to reinforce and broaden the scope of existing services. The main objectives of all initiatives designed to combat gender-based violence is to support women and encourage them to report abuse, to listen to them and to provide tangible legal, psychological and economic support.

The centres also work to facilitate - where necessary - contact between victims of violence and local services and law enforcement agencies.

A shelter was set up in 2017 to offer protection and accommodation to women who are suffering from violence and find themselves forced to leave their homes and live in situations of danger that endanger both themselves and their children.

The Group helps to organise a number of measures designed to raise awareness of issues around gender-based violence through activities in companies and schools.

Planned measures against gender-based violence in 2016 - 2017

20
Women who received legal support

20
Women who received psychological support

7
Serious emergencies dealt with at the shelter

38
Hours of meetings in companies and schools on gender-based violence

Initiatives designed to help young people and the elderly

Since 2014, the Group has been the sole backer of a community centre in Casette D'Ete and an afternoon education centre in Comunanza, both of which offer free courses and activities for all sections of the population. **Activities dedicated to the elderly** such as postural gymnastics are organised during the morning, while afternoon activities are reserved exclusively for young people and encompass art, music, movement, creativity, help with homework and use of the games rooms. In the evenings, the centre organises a range of **adult courses** including English, IT, drama, book club, pilates, zumba and yoga.

The facility is used throughout the year to organise events in partnership with local schools and cultural associations, including conferences, debates, meetings with authors, training events for teachers and young people, themes parties and parental support activities.

Support for young people and adults: main results in 2017

≈ 100
elderly people involved in morning activities

≈ 100
young people involved in afternoon activities

150
adults involved in evening activities

The Group is particularly passionate about the **needs** and development **of young people** and has thus launched two further projects designed to help young people move into the world of work.

The first project offers the **most deserving students from a hospitality institute** the chance to perfect the skills they have obtained in the classroom by spending a few weeks working on the ground in prestigious restaurants and hotels in a number of European capitals. The Group covers 100% of the students' travel and accommodation costs. In addition to academic training in the classroom and on-the-job training, the young people are also able to take part in workshops and exercises designed to ensure the ongoing development of their abilities.

20/25
students
undertaking
experiences abroad
every year

≈ 40
meals prepared
by students per day

The same students also **take part in** a second project, which includes **cooking workshops** teaching them how to make authentic, healthy food that they then serve up for lunch at the institute to vulnerable elderly people who have been flagged up by Sant'Elpidio a Mare social services. TOD'S purchases all the raw ingredients needed to prepare the food and covers all costs relating to kitting out the room used to accommodate the elderly people.
In addition to representing a great training opportunity for the young people, this project ensures that guests are eating properly thanks to special menus prepared by the youngsters and their teachers.

Staying on the subject of school projects, during the 2016/17 school year a number of students and teachers from the hospitality institute helped to prepare meals for students of other courses attending afternoon lessons. On average, 40 meals were provided every day. The aim of the project was to give the students as realistic a taste of the restaurant industry as possible while at the same time providing a useful service to the school.

Providing **support to the elderly** is another important objective which the Group continues to pursue through a series of projects designed to make a tangible contribution to the elderly across a number of areas including: information, communication, services, assistance and promotions. The Group organises initiatives in this area in collaboration with Senior Italia Federcentri, working in close partnership with the provincial and regional coordination centres and with public bodies such as ASUR and INCRA (National Institute for the Rest and Care of the Elderly). Over the course of 2017, the Group took part in a project involving many of the 75 social centres in the province of Ascoli Piceno and Fermo. The project saw a range of initiatives organised in order to promote the physical and psychological well-being of the elderly, to raise awareness in local communities of issues relating to the elderly and to encourage social activities.

The Group didn't just provide economic support to the social centres, but also purchased means of transport to help elderly people travel to and from the centres and make it easier for them to take part in the activities organised.

1,800 Elderly people involved in the "Missione benessere" (Mission well-being) project in both 2016 and 2017	**82** Activities organised for elderly people, including courses, workshops and conferences in both 2016 and 2017.

The interesting "*La fattoria sociale Montepacini*" (Montepacini Social Farm) project was also launched in 2017. This multi-year social experiment sees participation from parents, volunteers and a range of associations operating in the areas of biodiversity, short-chain systems and food sustainability. The Group co-funds the project, ensuring that many of the initiatives can go ahead, including a rehabilitative social/educational centre working with 16 disabled young people and adults, a summer centre in the countryside for over 200 children, agricultural activities and farmyard livestock rearing, work to salvage and preserve ancient and rare seeds and efforts to get young political asylum seekers involved in the activities (15 young people from the Protection System for Asylum Seekers and Refugees (SPRAR)). Among the many activities organised, there is also a football team made up of youngsters from the centre. The team competes in a league.
The initiative represents a way of bringing people together, promoting socialising while celebrating the values of collaboration and volunteering.

Tangible support: the Arquata del Tronto facility

Another concrete example of the TOD'S Group's commitment to **supporting the local community** lies in its decision to help the population of the town of **Arquata del Tronto** and the surrounding areas in the Marche region after the devastating earthquake of 24 August 2016. As a way of sending out a clear message of hope and possibility, TOD'S chose to build a new facility in Arquata and get local young people involved. The Group's inspiration for the project was drawn from the history of Made in Italy, which has always been a guiding factor for the organisation in that it is synonymous with quality and beauty - but also tradition, culture and sharing.
The facility was built on a site of around 5,000 square metres and was inaugurated on 20 December 2017. It can accommodate around 100 production staff. Built in the space of just one year, the facility is initially employing over 30 people - giving them a chance to rebuild a future in

their local area, which was devastated by the violent earthquake in 2016.

The young people began training activities well before the official opening of the factory. The project allows the Group to make a tangible contribution to efforts to keep the local community alive and working following the earthquake, but also sends out a message of hope to local people, who are still living with the far-reaching consequences of the earthquake.

Aware of its role in this area, the Group has placed particular importance on this project. One of its objectives was to set an example for other businesses and show that it wants to invest in the local area. In addition to providing a positive response to such a terrible situation as the one affecting these communities, the project is a way of sending out a strong message to the world that this is an economy that is reacting and bouncing back from adversity.

Initiatives supporting Italy's artistic and cultural heritage

Supporting **Italian culture**, celebrating the **Italian spirit** and promoting the **image of Italy around the world** are further important objectives for the TOD'S Group, which is active in a range of initiatives designed to protect and promote Italy's historical and cultural heritage. The aim of such projects is to consolidate the **country**'s wonderful reputation, promote its image and spread its values. In 2011, the Group teamed up with the Ministry of Cultural Heritage and Activities and the Special Superintendency for the Archaeological Heritage of Rome to fund a series of **restoration measures** involving the **Colosseum**, of a total value of €25 million. In 2016, the first phase of the measures came to a close with the completion of the restoration of the north and south sides and the installation of perimeter fences. These measures saw the ancient splendour of one of the most important and well-known symbols of Italy's artistic and cultural heritage restored. To coincide with the completion of the first phase of the works, TOD'S launched the "**Un'arena di luci e colori**" (An Arena of Light and Colour) initiative in partnership with the Special Superintendency for the Colosseum and Rome's main archaeological areas. The project - which was organised in order to ensure the whole community was able to make the most of the Colosseum - consisted of a stunning light show inside the Colosseum itself. Around 7,000 people from various federations, Confartigianato, Confesercenti, Confcommercio, accredited personal services organisations, Caritas, hospitals, schools, universities and law enforcement attended the event, which offered up an unforgettable experience in one of the most iconic monuments for the promotion of Italian culture around the world.

As part of its attempts to celebrate Italian culture, manufacturing and contemporary art, the TOD'S Group supports two emblems of Italian culture in Milan: the **La Scala Theatre** and the **Padiglione di Arte Contemporanea (PAC)**. The Group is proud to be a Permanent Founding Member of the **La Scala Theatre Foundation**, a prestigious and vitally important international institution working to celebrate the historical and cultural heritage of the theatre. The foundation also provides an opportunity to support an exquisite schedule of artistic events and contribute to the objective of promoting musical culture around the world.

As regards the **Padiglione di Arte Contemporanea (PAC)**, the Group has a four-year agreement with the Municipality of Milan designed to support the completion and promotion of research activities and projects run by the Padiglione, a vital institution in the international contemporary art panorama. The Padiglione plays host to unique, globally relevant exhibitions and attracts an average of 20,000 visitors to every exhibition. During 2016, TOD'S helped to create and promote - in its role as technical sponsor - an important photography exhibition entitled *So Far So Goude*. The exhibition was dedicated to Jean Paul Goude, the unmistakeable photographer behind some of the most iconic images of recent decades. Part of the proceeds from the exhibition were donated to the PAC itself for maintenance, protection and restoration work, with additional profits being donated to Don Mazzi's Exodus charity to support a project focusing on providing training and combating school dropouts. In February, for the third year running, the TOD'S Group made a contribution to the PAC to help organise the "Riscatti" photography exhibition, which this year focused on 29 young people being treated at the National Cancer Institute of Milan (INT) as they set about learning the art of photography. Proceeds from the sale of the images displayed, which were taken by artists from all over the world, were used to fund further initiatives in the Progetto Giovani (Youth Project), which is run by the Bianca Garavaglia Association in the paediatric ward at the INT.

VB Handmade - Performance by Vanessa Beecroft

On 26 February 2016, the day of the unveiling of the brand's new collection, the TOD'S Group teamed up with the artists Vanessa Beecroft, who organised a performance at the PAC in Milan. Beecroft's performance interpreted some of the Group's core values, celebrating the quality, art and savoir faire of the TOD'S artisans and channelling this into contemporary art. "The people around the table were able to see leather become transformed into a sensual dress around the muse Karlie Kloss."

Wrapping - Performance by Thomas De Falco

On 24 February 2017, the TOD'S Group teamed up with the artist Thomas De Falco in order to pay tribute to the art of craftsmanship. The performance, which again took place at the PAC in Milan, showcased the artist's famous knots, which on this occasion were made from leather in white and brown, draped around the bodies of a number of models, including Naomi Campbell.

This fusion of leather and skin, brought together in a unique performance, showed the public a new way of combining art and craftsmanship, celebrating the timeless elegance that has always been at the heart of the TOD'S Group ethos.

TOD'S again teamed up with Vanessa Beecroft - one of the undisputed stars of the international art scene - for two unique performances, once held in the courtyard of Palazzo Strozzi and the other in the Sala della Niobe at the Uffizi Gallery. Both performances combined ancient and contemporary music in some of the most prestigious and beautiful locations in Florence as part of the "Firenze suona contemporanea" festival, which ran from 28 September to 2 October 2017.

By renting out Milan's **Villa Necchi** to present its collections, TOD'S continued to support the mission of the **Fondo Ambiente Italiano (FAI)**. Launched in 1975, the non-profit organisation invests great passion and enthusiasm in order to save some of the most important parts of Italy's art heritage and natural wonders from decline. The fund also undertakes restoration work and ensures the Italian public can enjoy these assets, while raising awareness among institutions and the general public on how to protect them.

By way of illustration of the Group's commitment to bringing fashion and art closer together, the Group has donated a number of pieces from its collection to the **Veneranda Fabbrica del Duomo** organisation in order to **fund restoration work on Milan's Duomo**. Together with pieces from other fashion brands, the TOD'S products were auctioned off at an event held on 19 April 2016.

Community work

The Group also supports those most in need through contributions to a range of non-governmental associations operating in Italy and around the world. For example, TOD'S has for many years worked with **Save The Children** on a range of projects such as the "**Illuminiamo il futuro**" (Light up the Future) campaign, which aims to fight economic and educational poverty by supporting the education of children living in poverty. The project features the creation of facilities known as "**Punto Luce**" (Light Points). These educational spaces are set up in disadvantaged areas, with the aim of engaging with children and adolescents.

As part of this project, the TOD'S Group worked with Save the Children to set up a *Punto Luce* in Naples' Barra area. The 4,500 square metre space was designed to be used by local young people and their parents and represents a haven of education and culture for children and adolescents. The aim is for the space to become a "hub of local education services", allowing schools, social services, other local associations and even the young people themselves to get involved in planning *Punto Luce* activities, thus offering them development support and facilitating their social inclusion and integration. The centre - which was completely renovated by Save the Children, with TOD'S making another contribution in 2017 - hosts a range of free activities for children and young people between the ages of six and 16: physical activity and sports, creative workshops, circus and theatre workshops, music, study support, educational sessions about how to use new media responsibly and a library.

Another important partnership is with the **San Patrignano** rehabilitation community, which welcomes young men and women for free. The Group has been working with San Patrignano since 2016 to create a special collection. The Group provided free raw materials and sent skilled artisans to give the young people a chance to create a **collection of bags and leather goods** at the community. The project is a wonderful opportunity to underline the importance of professional development, which is one of the community's primary objectives.

All proceeds from the initiative, which were raised through the sale of the products created by the community residents on San Patrignano through the e-commerce website and at the outlet store at the Group's headquarters, were donated back to the community, which used them to fund and run more projects. Overall, the project provided invaluable training and provided much-needed motivation to the young people of San Patrignano.

HOGAN Junior and FAY Junior team up with the Istituto Marangoni for the Francesca Rava Foundation

In 2017, HOGAN Junior and FAY Junior teamed up with the **Istituto Marangoni** on an important charity project. During **Pitti Immagine Bimbo**, **the brands unveiled a project** supporting the **Francesca Rava Foundation.**

The Francesca Rava Foundation is an international humanitarian organisation that has been working to support orphaned and abandoned children and guide them through the education process for over 60 years.

As part of the sustainability project, HOGAN and FAY worked with the prestigious fashion event to create an educational initiative for the students of the institute, who were asked to create a series of artwork. Six pieces were then selected to be made into a limited-edition t-shirt collection.

The t-shirts went on sale in stores and online on 23 June, with all proceeds donated to the Francesca Rava Foundation to support the “Scuole di Strada” (Street Schools) project in Haiti.

Finally, in addition to the main initiatives already described, the Group also took part in **a number of fundraising dinners** in 2017, donating many products for charity auctions. The Group worked with around 15 charitable organisations in this way, including the Anlaids Foundation, ANT Italia Onlus, Charity Star, Dynamo Camp, Save the Children and Telethon.

6.Appendixes

Breakdown of employees by professional category and gender

No. of people	12.31.17			12.31.16		
	Men	Women	Total	Men	Women	Total
Executives	33	19	**52**	31	18	**49**
Managers	128	186	**314**	131	197	**328**
White collars	948	1,940	**2,888**	929	1,965	**2,894**
Blue collars	547	826	**1,373**	458	756	**1,214**
Total	**1,656**	**2,971**	**4,627**	**1,549**	**2,936**	**4,485**

Breakdown of employees by professional category and age range

No. of people	12.31.17				12.31.16			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Executives		24	28	**52**		26	23	**49**
Managers	7	271	36	**314**	11	289	28	**328**
White collars	853	1,885	150	**2,888**	936	1,786	172	**2,894**
Blue collars	239	762	372	**1,373**	203	693	318	**1,214**
Total	**1,099**	**2,942**	**586**	**4,627**	**1,150**	**2,794**	**541**	**4,485**

Breakdown of employees by contract type and gender

No. of people	12.31.17			12.31.16		
	Men	Women	Total	Men	Women	Total
Permanent contract	1,397	2,436	**3,833**	1,335	2,431	**3,766**
Fixed-term contract	259	535	**794**	214	505	**719**
Total	**1,656**	**2,971**	**4,627**	**1,549**	**2,936**	**4,485**

Breakdown of employees by professional category and gender

No. of people	12.31.17			12.31.16		
	Men	Women	Total	Men	Women	Total
Full-time	1,582	2,688	**4,270**	1,475	2,671	**4,146**
Part-time	74	283	**357**	74	265	**339**
Total	**1,656**	**2,971**	**4,627**	**1,549**	**2,936**	**4,485**

Breakdown of employees by type (corporate/retail) and gender

No. of people	12.31.17			12.31.16		
	Men	Women	Total	Men	Women	Total
Corporate	966	1,487	**2,453**	896	1,439	**2,335**
Retail	690	1,484	**2,174**	653	1,497	**2,150**
Total	**1,656**	**2,971**	**4,627**	**1,549**	**2,936**	**4,485**

Breakdown of employees by type (corporate/retail) and age range

No. of people	12.31.17				12.31.16			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Corporate	368	1,564	521	**2,453**	343	1,511	481	**2,335**
Retail	731	1,378	65	**2,174**	807	1,283	60	**2,150**
Total	**1,099**	**2,942**	**586**	**4,627**	**1,150**	**2,794**	**541**	**4,485**

Employees covered by collective bargaining agreements*

Employees	12.31.17	12.31.16
	Total	Total
Covered by collective bargaining agreements	60.8%	59.9%

Data as at 31 December 2016 refers to 99.5% of the Group workforce.

* These percentages are calculated on the basis of the total number of employees as at 31 December 2016 and 31 December 2017, regardless of collective bargaining agreements in the countries in which the Group operates.

Employees incoming - 2017

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	63	135	62	186	10	30	**135**	**351**	14.3%	29.5%
Europe	142	191	60	127		14	**202**	**332**	68.0%	44.4%
Americas	24	24	19	14	1	2	**44**	**40**	37.0%	38.8%
Greater China	83	121	36	85	2		**121**	**206**	56.5%	34.1%
Rest of the World	15	36	16	58			**31**	**94**	37.8%	28.8%
Total	**327**	**507**	**193**	**470**	**13**	**46**	**533**	**1,023**	**32.2%**	**34.4%**

Employees incoming - 2016

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	37	123	36	164	6	19	**79**	**306**	8.8%	26.3%
Europe	103	208	47	72	1	3	**151**	**283**	61.1%	39.1%
Americas	23	17	8	13		1	**31**	**31**	27.0%	27.7%
Greater China	65	136	30	80	1	1	**96**	**217**	46.6%	34.2%
Rest of the World	17	44	15	47			**32**	**91**	39.5%	29.8%
Total	**245**	**528**	**136**	**376**	**8**	**24**	**389**	**928**	**25.1%**	**31.6%**

Employees outgoing - 2017

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	37	107	35	179	19	38	**91**	**324**	9.6%	27.2%
Europe	99	181	51	113		16	**150**	**310**	50.5%	41.5%
Americas	21	17	18	25	1	7	**40**	**49**	33.6%	47.6%
Greater China	66	123	46	112		2	**112**	**237**	52.3%	39.2%
Rest of the World	10	27	20	45	1		**31**	**72**	37.8%	22.1%
Total	**233**	**455**	**170**	**474**	**21**	**63**	**424**	**992**	**25.6%**	**33.4%**

Employees outgoing - 2016

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	41	128	67	205	14	30	**122**	**363**	13.6%	31.2%
Europe	67	156	43	99	1	1	**111**	**256**	44.9%	35.4%
Americas	12	18	14	21	1		**27**	**39**	23.5%	34.8%
Greater China	87	128	53	119		2	**140**	**249**	68.0%	39.3%
Rest of the World	8	19	12	33		3	**20**	**55**	24.7%	18.0%
Total	**215**	**449**	**189**	**477**	**16**	**36**	**420**	**962**	**27.1%**	**32.8%**

Type of injuries recorded – 2017*

Region	Injuries in the workplace			Injuries on the way to or from the workplace		
	Men	Women	Total	Men	Women	Total
Italy	6	14	**20**	8	16	**24**
of which fatal	-	-	-	-	-	-
Europe	3	11	**14**	-	1	**1**
of which fatal	-	-	-	-	*1*	***1***
Americas	3	4	**7**	-	-	-
of which fatal	-	-	-	-	-	-
Greater China	1	9	**10**	-	1	**1**
of which fatal	-	-	-	-	-	-
Rest of the World	-	-	-	-	-	-
of which fatal	-	-	-	-	-	-
Total	**13**	**38**	**51**	**8**	**18**	**26**

* This data does not include external collaborators.

Rate of injury - 2017*

Region	Severity index (a)			Rate of injury (b)			Rate of work-related illness (c)			Rate of absenteeism (d)		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Italy	43.23	61.17	**53.19**	1.8	3.33	**2.62**	0.13	-	**0.06**	0.04%	0.06%	**0.05%**
Europe	-	0.85	**0.69**	-	0.56	**0.45**	-	-	-	2.89%	1.34%	**1.64%**
Americas	2.61	-	**1.33**	2.95	4.63	**3.72**	-	-	-	-	-	-
Greater China	52.14	7.63	**18.88**	0.48	1.63	**1.34**	-	-	-	0.6%	2.85%	**2.28%**
Rest of the World	-	-	-	-	-	-	-	-	-	-	-	-

* The Group's rate of injury refers to 89.4% of the sample analysed.

(a) The severity index is the ratio between the total number of days lost due to injury and work-related illnesses and the total number of eligible work hours in the same period, multiplied by 200,000.

(b) The rate of injury is the ratio between the total number of injuries and the total number of hours worked in the same period, multiplied by 200,000.

(c) The rate of work-related illness is the ratio between the total number of cases of work-related illnesses and the total number of hours worked in the same period, multiplied by 200,000.

(d) The rate of absenteeism is the ratio between the total number of days' absence and the total number of eligible work days in the same period, expressed as a percentage.

* This data does not include external collaborators.

Ratio between base salary for men and women - 2017

Base Salary	Ratio Women on Men 2017				
	Italy	Europe	Americas	Greater China	Rest of the World
Executives	0.74	0.95			
Managers	0.98	0.98	1.32	0.94	0.68
White collars	0.86	1.05	1.06	1.16	0.90
Blue collars	0.97	0.94			

Ratio between base salary for men and women - 2016

Base Salary	Ratio Women on Men 2016				
	Italy	Europe	Americas	Greater China	Rest of the World
Executives	0.83	0.84			
Managers	0.94	0.99	1.20	0.85	0.73
White collars	0.85	1.04	1.11	1.21	0.93
Blue collars	0.97	0.89			

Ratio between total remuneration for men and women - 2017

Average comprehensive remuneration	Ratio Women on Men 2017				
	Italy	Europe	Americas	Greater China	Rest of the World
Executives	0.66	0.92			
Managers	0.95	1.01	1.37	0.76	0.69
White collars	0.88	1.05	1.06	1.14	0.87
Blue collars	0.97	0.94			

Ratio between total remuneration for men and women - 2016

Average comprehensive remuneration	Ratio Women on Men 2016				
	Italy	Europe	Americas	Greater China	Rest of the World
Executives	0.76	0.72			
Managers	0.92	0.99	1.24	0.78	0.74
White collars	0.87	1.06	1.12	1.18	0.91
Blue collars	0.97	0.89			

Average training hours per head, divided by gender and professional category

No. of people	2017		
	Men	Women	Total
Executives	9.8	7.5	**9.0**
Managers	18.4	19.4	**19.0**
White collars	9.3	8.2	**8.6**
Blue collars	5.5	3.0	**4.0**
Total	**8.8**	**7.5**	**7.9**

No. of people	2016*		
	Men	Women	Total
Executives	10.3	6.4	**8.9**
Managers	11.0	11.9	**11.5**
Whitecollars	4.8	3.9	**4.2**
Bluecollars	8.4	10.6	**9.8**
Total	**6.5**	**6.2**	**6.3**

* Data for 2016 refers to 98% of the Group workforce, net of 5,122 hours of retail training which was unable to be divided by gender.

Employees belonging to legally protected status, divided by professional category and gender

No. of legally protected status people	12.31.17			12.31.16		
	Men	Women	Total	Men	Women	Total
Executives	-	-	**-**	-	-	**-**
Managers	1	2	**3**	-	2	**2**
White collars	12	19	**31**	10	12	**22**
Blue collars	41	29	**70**	43	29	**72**
Total	**54**	**50**	**104**	**53**	**43**	**96**

7.Scope and impact of material topics

Material topic	Correlation with topic-specific disclosures	Scope of material topic	Type of impact
Customer satisfaction	N/A	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Ethics and integrity	Anti-corruption; Environmental compliance; Non-discrimination	TOD'S Group	Caused by the Group
Health and safety	Occupational health and safety	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Product quality and uniqueness	N/A	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Economic performance	Economic performance	TOD'S Group	Caused by the Group
Brand identify and enhancement	N/A	TOD'S Group	Caused by the Group
Support for local communities	Local communities	TOD'S Group	Caused by the Group
Respect for human rights	Supplier social assessment	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Well-being of employees and their families	Employment	TOD'S Group	Caused by the Group
Raw materials and responsible manufacturing	Materials	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Training and enhancement	Training and education	TOD'S Group	Caused by the Group
Risk management	N/A	TOD'S Group	Caused by the Group

Sustainable procurement practices	Procurement practices	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Environmental responsibility	Environmental compliance	TOD'S Group	Caused by the Group
Presence on the market	Presence on the market	TOD'S Group	Caused by the Group
Production and disposal of waste	Effluents and waste	TOD'S Group, suppliers, external workshops, end customers, wholesale customers	Caused by the Group and directly connected to its activities
Equal opportunities and non-discrimination	Diversity and equal opportunities; Non-discrimination	TOD'S Group	Caused by the Group
Protecting art and culture	Local communities	TOD'S Group	Caused by the Group
Responsible consumption	Materials; Energy; Water	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Sustainable business strategy	N/A	TOD'S Group	Caused by the Group
Greenhouse gas emissions	Emissions	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Responsible marketing	Marketing and labelling	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Labour management relations	Labour management relations	TOD'S Group	Caused by the Group

8. GRI Content Index

The TOD'S Group's Non-Financial Statement for 2017 was produced in accordance with GRI Standards (Core Option). The following table shows Group data based on GRI Standards, with reference to the materiality analysis. For each piece of data shown, the relevant page number in the Non-Financial Statement (DNF) and/or Annual Financial Report (RFA) is shown.

GRI Standard	Disclosure	Page No.
GENERAL DISCLOSURE 2016		
Organisational profile		
102-1	Name of the organisation	DNF pp. 30-32
102-2	Primary brands, products and services	DNF pp. 48-52
102-3	Location of headquarters	DNF pp. 30-33; RFA p. 1
102-4	Location of operations	DNF pp. 53-54; RFA pp. 4, 6
102-5	Ownership and legal form	DNF pp. 39-43; RFA pp. 1, 4-5
102-6	Markets served	DNF pp. 53-54; RFA p. 6
102-7	Scale of the organisation	DNF pp. 46, 78; RFA pp. 7-9
102-8	Information on employees and other workers	DNF pp. 78, 103, 111
102-9	Description of the supply chain	DNF pp. 54-65
102-10	Significant changes to the organisation's size, structure, ownership, or supply chain during the reporting period	There were no significant changes to the size, structure, ownership or supply chain during reporting period
102-11	Application of precautionary approach to risk management	DNF pp. 43-46
102-12	Adherence to or adoption of codes of conduct, principles and charters developed by external bodies/associations relating to economic, social and environmental performance	DNF pp. 37-38, 58, 67
102-13	Membership of associations or organisations promoting sustainability in Italy or around the world.	DNF pp. 35, 58, 64-65, 67
Strategy		
102-14	Statement from senior decision-maker	DNF p. 29

102-15	Description of key impacts, risks and opportunities	DNF pp. 43-46
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	DNF pp. 37-39, 43, 64-65, 67
102-17	Descriptions of mechanisms for advice about unethical or unlawful behaviour	DNF pp. 39, 43
Governance		
102-18	Governance structure	DNF pp. 39-43; RFA p. 3
Stakeholder engagement		
102-40	List of stakeholder groups engaged	DNF pp. 33-35
102-41	Collective bargaining agreements	DNF p. 112
102-42	Identifying and selecting stakeholders	DNF pp. 33-35
102-43	Approach to stakeholder engagement	DNF pp. 33-35
102-44	Key topics and concerns raised through stakeholder engagement	DNF pp. 33-35
Profile of Non-Financial Statement		
102-45	Entities included in the consolidated financial statements	DNF pp. 30-32; RFA pp. 4-5
102-46	Defining Non-Financial Statement content and Boundaries	DNF pp. 36-37, 116-117
102-47	Material topics identified	DNF pp. 36-37, 116-117
102-48	Restatements of information	This is the TOD'S Group's first Non-Financial Statement
102-49	Significant changes from the previous reporting period	This is the TOD'S Group's first Non-Financial Statement
102-50	Reporting period	DNF pp. 30-32
102-51	Publication date of the most recent Non-Financial Statement	This is the TOD'S Group's first Non-Financial Statement
102-52	Reporting cycle	This is the TOD'S Group's first Non-Financial Statement. Further editions will be released annually
102-53	Contact point for questions regarding the financial statements and their content	DNF p. 32
102-54	Indication of the selected "in accordance" option	DNF pp. 30-32, 118
102-55	GRI content index	DNF pp. 118-126

102-56	External assurance	This Non-Financial Statement has undergone external assurance.

GRI Standard	Disclosure	Page No.	Omission
MATERIAL TOPICS (all material topics have been assessed according to topic-specific disclosures relating to 2016)			
Economic performance			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF p. 46; RFA pp. 7-9	
103-3	Evaluation of the management approach	DNF p. 46; RFA pp. 7-9	
201-1	Direct economic value generated and distributed	DNF p. 46	
Presence on the market			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78, 84, 120	
103-3	Evaluation of the management approach	DNF pp. 78, 84, 120	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	DNF p. 84	
202-2	Proportion of senior management hired from the local community	In 2017, 82.7% of senior managers in the Group's companies were hired from local communities (down from 83.7% in 2016)	
Procurement practices			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 54-64	
103-3	Evaluation of the management approach	DNF pp. 54-64	
204-1	Proportion of spending on local suppliers	DNF p. 56	
Anti-corruption			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 37-38, 43	

103-3	Evaluation of the management approach	DNF pp. 37-38, 43	
205-3	Confirmed incidents of corruption and actions taken	The Group registered no incidents of corruption in 2016 and 2017	
Materials			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 56-64, 93-94	
103-3	Evaluation of the management approach	DNF pp. 56-64, 93-94	
301-1	Materials used by weight or volume	DNF pp. 58, 94	The raw materials analysed (page 58) refer to raw materials purchased, and not raw materials consumed. This information is not available due to confidentiality issues.
Energy			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 89-91	
103-3	Evaluation of the management approach	DNF pp. 89-91	
302-1	Energy consumption within the Group	DNF p. 90	
Water			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 89, 92	
103-3	Evaluation of the management approach	DNF pp. 89, 92	
303-1	Total water withdrawal by source	DNF p. 92	
Emissions			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 89, 94-95	

103-3	Evaluation of the management approach	DNF pp. 89, 94-95	
305-1	Direct (Scope 1) GHG emissions	DNF pp. 94-95	
305-2	Energy indirect (Scope 2) GHG emissions	DNF pp. 94-95	
305-6	Emissions of ozone-depleting substances (ODS)	DNF pp. 94-95	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	DNF pp. 94-95	
Effluents and waste			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 89, 92-93	
103-3	Evaluation of the management approach	DNF pp. 89, 92 - 93	
306-2	Waste by type and disposal method	DNF p. 93	
Environmental compliance			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF p. 89	
103-3	Evaluation of the management approach	DNF p. 89	
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	The Group received no significant fines or non-monetary sanctions deriving from non-compliance with environmental laws and regulations during 2016 and 2017	
Employment			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78-82, 85, 87-88	
103-3	Evaluation of the management approach	DNF pp. 78-82, 85, 87-88	
401-1	Total number of new employee hires and turnover rate	DNF pp. 78-79, 112-113	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time	DNF pp. 85, 87-88	

	employees		
Labour management relations			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78, 112	
103-3	Evaluation of the management approach	DNF pp. 78, 112	
402-1	Minimum notice periods regarding operational changes	The minimum notice period is set out in collective bargaining agreements, where present, and by laws in force in the countries in which the Group operates.	
Occupational health and safety			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78, 88	
103-3	Evaluation of the management approach	DNF pp. 78, 88	
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities, divided by region and employee gender	DNF pp. 113-114	A system of data collection for injuries and the main injury indicators will be developed by the end of the 2019 reporting period
Training and education			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78-82, 85-87	
103-3	Evaluation of the management approach	DNF pp. 78-82, 85-87	
404-1	Average hours of training per year per employee	DNF pp. 85, 115	
Diversity and equal opportunities			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	

103-2	Management approach	DNF pp. 78, 83	
103-3	Evaluation of the management approach	DNF pp. 78, 83	
405-1	Diversity indicators in governance bodies and employees	DNF pp. 42, 111, 115	
405-2	Ratio of basic salary and remuneration of women to men	DNF pp. 114-115	
Non-discrimination			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 78, 83	
103-3	Evaluation of the management approach	DNF pp. 78, 83	
406-1	Total number of incidents of discrimination and action taken	The Group registered no incidents of discrimination in 2016 and 2017	
Local communities			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 97-110	
103-3	Evaluation of the management approach	DNF pp. 97-110	
413-1	Operations with local community engagement, impact assessments, and development programmes	DNF pp. 97-110	
Supplier social assessment			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 54-64	
103-3	Evaluation of the management approach	DNF pp. 54-64	
414-1	New suppliers that were screened using social criteria	DNF pp. 60-61	By the end of 2019, the Group will begin planning and carrying out audits of third parties in its production chains in relation to issues relating to the environment, society, human rights,

			health and safety and ethical principles
Marketing and labelling			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 65-67	
103-3	Evaluation of the management approach	DNF pp. 65-67	
417-2	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labelling	During 2016 and 2017, the Group registered no cases of non-compliance with regulations or voluntary codes as regards product/service information and labelling	
417-3	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship	During 2016 and 2017, the Group registered no cases of non-compliance with regulations or voluntary codes as regards marketing activities	
Product quality and uniqueness			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 59-64	
103-3	Evaluation of the management approach	DNF pp. 59-64	
Brand identify and enhancement			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 32, 50-52	
103-3	Evaluation of the management approach	DNF pp. 32, 50-52	
Sustainable business strategy			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 32	

103-3	Evaluation of the management approach	DNF pp. 32	
Customer satisfaction			
103-1	Explanation of material topics	DNF pp. 36-37, 116-117	
103-2	Management approach	DNF pp. 67-73	
103-3	Evaluation of the management approach	DNF pp. 67-73	

Independent auditor's report
on the consolidated non-financial statement

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267

To the Board of Directors of Tod's SpA

Pursuant to article 3, paragraph 10 of the Legislative Decree 254 of 30 December 2016 (the "Decree") and to article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the Consolidated non-financial statement of Tod's SpA and its subsidiaries (hereafter the "group") for the year ended 31 December 2017, in accordance with article 4 of the Decree and approved by the Board of Directors on 13 March 2018 (hereafter the "NFS").

Responsibility of the directors and of the board of statutory auditors for the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards").

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure an understanding of the group's activities, its performance, its results and related impacts.

Directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the group and for the identification and management of risks generated and/or faced by the group.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the company, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with the information reported in the group's consolidated financial statements;
4. understanding of the following matters:
    - Business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
    - Policies adopted by the group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
    - Main risks, generated and/or faced by the group, with reference to the matters specified in article 3 of the Decree.

   With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below.
5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.
   In particular, we held meetings and interviews with the management and with the personnel of Tod's SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

   Moreover, for material information, considering the activities and characteristics of the Tod's group:
   - at a group level,

a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;

- for the plant of Sant'Elpidio a Mare (Italy) which was selected on the basis of its activities, its contribution to the performance indicators at a consolidated level and its location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Tod's group as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Other aspects

The comparative information presented in the NFS in relation to the financial year ended 31 December 2016 has not been subjected to any procedures.

Bologna, 29 March 2018

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(Partner)

Paolo Bersani
(Authorized signatory)

This report has been translated from the Italian original solely for the convenience of international readers.

TOD'S Group

Annual Report **as of December 31st, 2017**

Financial Statements

Consolidated Income Statement

euro 000's	Note	Year 17	Year 16
Revenues			
Sales revenues (1)	24	963,287	1,004,021
Other income	24	19,451	36,026
Total revenues and income		**982,738**	**1,040,047**
Operating Costs			
Change in inventories of work in progress and finished goods (2)		12,871	(55,346)
Cost of raw materials, supplies and materials for consumption (2)		(255,290)	(238,625)
Costs for services		(237,871)	(228,894)
Costs of use of third party assets	19	(118,229)	(117,370)
Personnel costs	25	(191,540)	(186,208)
Other operating charges		(32,188)	(32,698)
Total operating costs		**(822,245)**	**(859,140)**
EBITDA		**160,492**	**180,908**
Amortisation, depreciation and write-downs			
Amortisation of intangible assets	7	(8,814)	(9,209)
Depreciation of tangible assets	8	(35,405)	(36,956)
Other adjustments	9	(2,453)	(4,431)
Total amortisation, depreciation and write-downs		**(46,672)**	**(50,596)**
Provisions	14-19	(2,060)	(1,951)
EBIT		**111,760**	**128,361**
Financial income and expenses			
Financial income	26	17,341	20,184
Financial expenses	26	(26,541)	(33,579)
Total financial income (expenses)		**(9,199)**	**(13,395)**
Income (losses) from equity investments	27	(664)	
Profit before taxes		**101,897**	**114,967**
Income taxes (3)	11-28	(32,535)	(29,198)
Profit/(loss) for the period		**69,362**	**85,768**
Non-controlling interests		1,645	524
Profit/(loss) of the Group		**71,007**	**86,292**
EPS (in euro)	29	2.15	2.62
EPS diluted (in euro)	29	2.15	2.62

Notes:

(1) Of which non-recurring for 25 million euros in FY 2016.

(2) Of which non-recurring for -24.2 million euros in FY 2016.

(3) Of which non-recurring for -0.3 million euros in FY 2016.

Consolidated Statement of Comprehensive Income

euro 000's	Note	Year 17	Year 16
Profit (loss) for the period (A)		**69,362**	**85,768**
Other comprehensive income that will be reclassified subsequently to profit and loss:			
Gains/(Losses) on derivative financial instruments (cash flow hedge)	18	750	4,410
Gains/(Losses) on currency translation of foreign subsidiaries	18	(19,992)	8,339
Gains/(Losses) on net investments in foreign operations	18	4,275	(4,216)
Total other comprehensive income that will be reclassified subsequently to profit and loss (B)		**(14,967)**	**8,533**
Other comprehensive income that will not be reclassified subsequently to profit and loss:			
Cumulated actuarial gains/(losses) on defined benefit plans	20	(12)	(288)
Total other comprehensive income that will not be reclassified subsequently to profit and loss (C)		**(12)**	**(288)**
Total Comprehensive Income (A) + (B) + (C)		**54,383**	**94,013**
Of which:			
Attributable to Shareholders of the Parent company		56,123	94,669
Attributable to non-controlling interests		(1,739)	(656)

Consolidated Statement of Financial Position

euro 000's	Note	12.31.17	12.31.16
Non current assets			
Intangible fixed assets			
Assets with indefinite useful life (1)	7	565,934	565,881
Key money	7	14,427	15,847
Other intangible assets	7	21,644	23,907
Total Intangible fixed assets		**602,005**	**605,635**
Tangible fixed assets			
Buildings and land	8	109,966	114,467
Plant and machinery	8	13,124	12,452
Equipment	8	10,800	12,180
Leasehold improvement	8	34,259	40,454
Others	8	32,783	37,336
Total Tangible fixed assets		**200,932**	**216,888**
Other assets			
Investment properties	10	22	25
Equity investments			20
Deferred tax assets	11	50,411	58,885
Others	12	18,547	21,367
Total other assets		**68,979**	**80,298**
Total non current assets		**871,916**	**902,821**
Current assets			
Inventories	13	312,263	291,892
Trade receivables	14	107,471	118,142
Tax receivables	14	29,805	28,646
Derivative financial instruments	15	2,763	2,857
Others	14	38,706	36,635
Cash and cash equivalents	16	221,609	227,706
Total current assets		**712,618**	**705,879**
Total assets		**1,584,534**	**1,608,700**

To be continued

Notes:

(1) This figure includes, for 415 million euros, the amount of ROGER VIVIER brand acquired through a related party transaction occurred on January 2016.

continuing

euro 000's	Note	12.31.17	12.31.16
Equity			
Share capital	18	66,187	66,187
Capital reserves	18	416,588	416,588
Treasury stock	18		
Hedging and translation reserves	18	6,360	25,505
Other reserves	18	526,130	492,640
Profit/(loss) attributable to the Group	18	71,007	86,292
Total Equity attributable to the Group		**1,086,272**	**1,087,212**
Non-controlling interests			
Share capital and reserves		2,526	3,793
Profit/(loss) attributable to non-controlling interests		(1,645)	(524)
Total Equity attributable to non-controlling interests		**880**	**3,269**
Total Equity		**1,087,152**	**1,090,481**
Non-current liabilities			
Provisions for risks	19	5,385	4,517
Deferred tax liabilities	11	37,968	32,739
Employee benefits	20	13,157	14,787
Others	22	15,795	15,910
Derivative financial instruments	15	1,197	2,687
Bank borrowings	21	147,617	197,139
Total non-current liabilities		**221,119**	**267,779**
Current liabilities			
Trade payables	23	158,388	130,804
Tax payables	23	7,932	8,241
Derivative financial instruments	15	2,459	8,046
Others	23	38,205	35,859
Banks	21	64,654	65,948
Provisions for risks	19	4,626	1,543
Total current liabilities		**276,263**	**250,440**
Total Equity and liabilities		**1,584,534**	**1,608,700**

Consolidated Statement of Cash Flows

euro 000's	Note	Year 17	Year 16
Profit/(Loss) for the period		**69,362**	**85,768**
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Amortizat., deprec., revaluat., and write-downs	7-8-9-13-14	48,274	81,801
Other non monetary expenses/(income)	15-18-19	1,756	125
Income taxes for the period	28	32,535	29,198
Changes in operating assets and liabilities:			
Trade receivables	14	9,898	(7,059)
Inventories	13	(21,200)	28,647
Tax receivables and tax payables	14-23	(3,919)	15,147
Trade payables	23	27,584	(15,054)
Other assets and liabilities	12-14-22-23	3,116	(8,176)
Change in reserve for employee	20	(1,641)	2,190
Cash flows from operating activities		**165,764**	**212,587**
Interests (paid)/collected		(1,189)	(1,767)
Income taxes (paid)/refunded		(16,380)	(61,136)
Net cash flows from operating activities (A)		**148,195**	**149,684**
Net investments in intangible and tangible assets	7-8	(35,868)	(34,181)
Acquisition of Roger Vivier brand			(415,000)
Acquisition of Roger Vivier Paris Sas legal entity net of cash and cash equivalents			(17,297)
Other changes in fixed assets			
Cash flows generated (used) in investing activities (B)		**(35,868)**	**(466,478)**
Dividends paid	18	(56,259)	(66,187)
Capital increase			207,500
Others change in Equity			
Changes in other financial liabilities			
Repayments of financial liabilities	21	(49,713)	(123,040)
Proceeds from financial liabilities			300,000
Cash flows generated (used) in financing (C)		**(105,972)**	**318,273**
Translation differences (D)		(12,648)	6,450
Cash flows from continuing operations (E)=(A)+(B)+(C)+(D)		**(6,293)**	**7,929**
Cash flow from assets held for sale (F)			
Cash flows generated (used) (G)=(E)+(F)		**(6,293)**	**7,929**
Net cash and cash equivalents at the beginning of the period		211,993	204,063
Net cash and cash equivalents at the end of the period		205,699	211,993
Change in net cash and cash equivalents		**(6,293)**	**7,929**

Consolidated Statement of changes in equity

Year 2017 euro 000's	Share Capital	Capital reserves	Hedging and reserve for translation	Retained earnings	Group interests	Non-controlling interests	Total
Balances as of 01.01.17	**66,187**	**416,588**	**25,505**	**578,932**	**1,087,212**	**3,269**	**1,090,481**
Profit & Loss account				71,007	71,007	(1,645)	69,362
Directly in equity			(19,145)	4,261	(14,884)	(94)	(14,978)
Total Comprehensive Income			**(19,145)**	**75,268**	**56,123**	**(1,739)**	**54,383**
Dividend paid				(56,259)	(56,259)		(56,259)
Capital increase							
Share based payments							
Other (1)				(804)	(804)	(649)	(1,453)
Balances as of 12.31.17	**66,187**	**416,588**	**6,360**	**597,137**	**1,086,272**	**880**	**1,087,152**

Year 2016 euro 000's	Share Capital	Capital reserves	Hedging and reserve for translation	Retained earnings	Group interests	Non-controlling interests	Total
Balances as of 01.01.16	**61,219**	**214,055**	**12,630**	**574,127**	**862,032**	**4,048**	**866,081**
Profit & Loss account				86,292	86,292	(524)	85,768
Directly in equity			12,875	(4,498)	8,377	(132)	8,245
Total Comprehensive Income			**12,875**	**81,794**	**94,669**	**(656)**	**94,013**
Dividend paid				(66,187)	(66,187)		(66,187)
Capital increase	4,968	202,532			207,500		207,500
Share based payments							
Other				(10,802)	(10,802)	(123)	(10,925)
Balances as of 12.31.16	**66,187**	**416,588**	**25,505**	**578,932**	**1,087,212**	**3,269**	**1,090,481**

Notes:

(1) *They include both the use of the specific reserve for promoting territorial solidarity projects and the effects of the additional acquisition of 50% company shares representing the share capital of the company Webcover Ltd. (already consolidated with the integral global method).*

Notes to the Consolidated Financial Statements

1. General notes

The TOD'S Group operates in the luxury sector under its proprietary brands (TOD'S, HOGAN, FAY and ROGER VIVIER). It actively creates, produces and distributes shoes, leather goods and accessories, and apparel. The firm's mission is to offer global customers top-quality products that satisfy their functional requirements and aspirations.

The parent company TOD'S S.p.A., registered office in Sant'Elpidio a Mare (Fermo) at Via Filippo Della Valle 1, is listed on Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A.

At December 31st, 2017 TOD'S S.p.A. share capital is owned by DI.VI. FINANZIARIA of DIEGO DELLA VALLE & C. S.r.l. for 50.291%.

The consolidated financial statements has been prepared by the Board of Directors of TOD'S S.p.A. on March 13th, 2018 and it is subject to PricewaterhouseCoopers S.p.A. audit.

2. Basis of preparation

The Consolidated Financial Statements were prepared in accordance with IAS/IFRS (International Accounting Standards – IAS -, and International Financial Reporting Standards – IFRS) issued by IASB, based on the text published on the Gazzetta Ufficiale of European Union (G.U.C.E.). IAS/IFRS refers also to all revised *International Accounting Standards* (IAS) and all interpretative documents issued by the IFRIC (*International Financial Reporting Interpretations Committee*), previously nominated *Standing Interpretations Committee* (SIC).

The Notes have been supplemented by the additional information required by CONSOB and its implementing measures of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, pursuant to article 114(5) of the Consolidated Law on Finance-TUF), article 78 of the Issuer Regulation, the EC document of November 2003 and, when applicable, the Italian Civil Code. Consistently with the financial statements for the previous year, certain information is provided in the Report by the Board of Directors on Operations.

The consolidated financial statements has been prepared on the going concern basis, and it includes the statement of financial position, the income statement, statement of comprehensive income, the statement of cash flows and the statement of changes in equity of TOD'S S.p.A. and its Italian and foreign subsidiaries, which are jointly referred to as the TOD'S Group. The consolidated financial statements is prepared in euro currency, on the basis of draft Financial Statements at December 31st, 2017 (January 1st – December 31st) approved by the respective boards of directors or, if there was no board of directors, by the sole directors, of the legal entities included in the consolidation scope. Because the closing date of its fiscal year does not coincide with the reference date of the consolidated financial statements, Tod's India Retail Pte.

Ltd was included on the basis of interim financial statements for twelve months, referring to the date of the consolidated financial statements.

For presentation of its operating income, the Group adopted the presentation of the profit and loss by nature. The format of representing revenues and costs by nature is followed, indicating the EBITDA and EBIT results as in the past, since they are considered representative indicators of company performance. In addition, it has been prepared the statement of comprehensive income which include transactions that are outside the income statement but they produce their effects directly to equity. Transactions represented in the statement of comprehensive income are net of tax effects, if applicable.

The statement of financial position shows current items, for which it is supposed that they will be realized or closed during the normal operating cycle, separately from non-current items (both assets and liabilities).

The financial statements schemes, joined with both report on operations and supplementary notes, are considered to be the those that provide the best organized representation of the Group's financial position and income. If it proves necessary or appropriate to amend items in the financial statements as a result of the application of a new accounting standard, a change in the nature of a transaction or an accounts review, in order to provide reliable and more relevant information for the users of the financial statements, the comparative data will be reclassified accordingly in order to improve the comparability of the information between one financial year and another. In this case, if the changes are significant, they will be suitably disclosed in the notes to the financial statements.

3. Evaluation methods and accounting standards

The accounting standards and principles of consolidation applied to the preparation of these Consolidated Financial Statements are consistent with those applied to the preparation of the Consolidated Financial Statements at December 31st, 2016, also taking into account the information reported below in relation to any amendments, interpretations and new accounting standards applicable from January 1st, 2017.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2017 and which were first adopted in the TOD'S Group's consolidated financial statements at December 31st, 2017

• Amendments to IAS 12: "Income taxes". These amendments, which were published by the IASB on January 19th, 2016, clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The application of this standard had no significant impact on the Group.
• Amendments to IAS 7: Statement of Cash Flows. These amendments, which were issued by the IASB on January 29th, 2016, require information to be provided in the financial statements about changes in financial liabilities, aimed at improving the disclosures provided to investors in order to help them to better understand the changes recorded in said payables. The application of this standard had no significant impact on the Group.
• "Annual improvements to IFRS Standards", IFRS 12: "Disclosure of Interests in Other Entities", which were issued by the IASB on December 18th, 2014. This amendment provides for an investment entity, which prepares the financial statements in which all of its subsidiaries are measured at fair value through profit or loss, to provide the disclosure required for investment entities according to IFRS 12. The application of this standard had no impact on the Group.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2018 or later and which have not been adopted early by the TOD'S Group.

• IFRS 15 – "Revenue from Contracts with Customers". On May 28th, 2014 the IASB published a document which requires an entity to recognise revenue at the time the control of goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The new revenue recognition model sets out a process in five steps:
1) Identifying the contract with a customer;
2) Identifying the performance obligations;
3) Determining the transaction price;
4) Allocating the transaction price to the performance obligations;
5) Recognising revenue when the entity satisfy a performance obligation.

The new standard also requires additional disclosures regarding the nature, amount, timing and uncertainty relating to revenues and cash flows arising from these contracts with customers. The IASB expects to adopt it from 2018, while the European Union endorsed it on September 22nd, 2016. Furthermore, on April 12th, 2016 the IASB published amendments to the standard: Clarifications to IFRS 15 Revenue from Contracts with Customers, which are also applicable as from January 1st, 2018. These amendments are aimed at clarifying the procedures to identify an entity as a "Principal" or as an "Agent" and to establish whether revenues from licences must be deferred throughout the term thereof.

The future adoption of this standard will not have any significant impact on the Group's financial statements.

•IFRS 9 – "Financial Instruments". On July 24th, 2014 the IASB published the final document constituting the conclusion of the process, divided into three phases: "Classification and Measurement, Impairment and General Hedge Accounting", entirely revising IAS 39. The document introduces new requirements for classifying and measuring financial assets and liabilities. Specifically, as regards financial assets, the new standard adopts a single approach based on how the financial instruments are managed and on the contractual cash flow characteristics of the financial assets themselves in order to determine the related valuation method, aiming at eventually replacing the various rules laid down under IAS 39. As regards financial liabilities, the main amendment concerns the method of accounting for fair value changes in a financial liability designated as at fair value through profit or loss, which are due to own credit of the financial liability itself. According to the new standard, these changes must be recognised in other comprehensive income, without affecting profit or loss. The main developments relating to hedge accounting are:

- Changes in the type of transactions that qualify for hedge accounting; specifically, a more extensive range of risks has been introduced for non-financial assets/liabilities that qualify for hedge accounting;

- A change in the method of accounting for forward contracts and options included in a hedge accounting relationship, in order to reduce profit or loss volatility;

- Changes in the effectiveness test by replacing the current methods based on the 80-125% range with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, entities are no longer required to perform an assessment of the retrospective effectiveness of the hedging relationship;

- A greater flexibility of the accounting methods is offset by improved disclosures on the risk management activities carried out by entities.

The new document includes a single model for the impairment of financial assets based on expected losses.

The IASB expects to adopt it from 2018, while the European Union endorsed it on November 22nd, 2016. The future adoption of this standard will not have any significant impact on the Group's financial statements.

• IFRS 16: Leases: In January 2016 the IASB published a document for the initial recognition, measurement, presentation and disclosure of lease agreements for both the parties to a contract, aimed at replacing IAS 17 Leasing. The document is not applicable to service contracts but only to lease agreements or to the leasing components of other contracts. The standard defines the lease as an agreement that transfers the right of use of an asset to the customer (lessee) for a certain period of time and in exchange for a consideration. The new standard eliminates the classification based on finance and operating leases and introduces a single accounting method that provides for the recognition of assets and liabilities for all the leases with a term of more than 12 months and the separate recognition of amortisation, depreciation and interest expense through profit or loss. As regards the lessor, no significant changes were made to the accounting method with respect to the provisions that are currently set out under IAS 17. IFRS 16 was endorsed by the European Union on October 31st, 2017 and will become effective from January 1st, 2019. An internal analysis was started in relation to the major contracts in place, which was aimed at gathering information required to outline their foreseeable effects in financial and economic terms.

• Amendments to IFRS 4: "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". These amendments were issued by the IASB on September 12th, 2016, endorsed by the European Union on November 3rd, 2017 and became applicable with the effective date being expected on January 1st, 2018. The amendments were intended to address concerns about the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. Furthermore, the amendments provide two options for entities that enter into insurance contracts within the scope of IFRS 4: i) an option that would permit entities to reclassify, from profit or loss to comprehensive income, some of the income or expenses arising from designated financial assets; and (ii) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The future adoption of this standard will not have any significant impact on the Group's financial statements.

• Amendments to IFRS 2: "Clarifications of Classification and Measurement of Share-based Payment Transactions". These amendments, which were published by the IASB on June 20th, 2016, provide some clarifications relating to the method of accounting for the effects of vesting conditions in the case of cash-settled share-based payments, the classification of share-based payments on a net settlement basis and any change in the terms and conditions of a share-based payment implying its reclassification from cash-settled to equity-settled items. The amendments will become applicable from January 1st, 2018. The possible future adoption of this standard will not have any significant impact on the Group's financial statements.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union.

• Amendments to IAS 40: regarding transfers of investment property. These amendments were issued by the IASB on December 8th, 2016, with the effective date being expected on January 1st, 2018.
The amendment provides as follows: i) paragraph 57 of IAS 40 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use; ii) the list of evidence in paragraph 57(a) – (d) is designated as non-exhaustive list of examples. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.
• Amendment to IFRIC 22: Foreign Currency Transactions and Advance Consideration. This interpretation, which was issued by the IASB on December 8th, 2016, covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. The IASB expects to adopt it from January 1st, 2018. Based on a preliminary analysis, the possible future adoption of this interpretation should not have any significant impact on the Group's financial statements.
• Annual improvements to IFRS Standards: 2014-2016 Cycle. This document was issued by the IASB on December 8th, 2016, the effective date being expected on January 1st, 2018. This session concerned the following topics: i) IFRS 1: short-term exemptions provided for in paragraphs E3-E7 are eliminated, since the reasons for their provision have ceased to exist; ii) IAS 28: it is clarified that it is possible to make the decision to measure, at fair value through profit or loss, any investment in a subsidiary or a joint venture held by a venture capital company, in relation to each investment in subsidiaries or joint ventures since their initial recognition. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.
• IFRIC 23 "Uncertainty over Income Tax Treatments". On June 7th,2017 the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments", providing instructions to account for (current and/or deferred) tax assets and liabilities relating to income tax as a result of uncertainties in the application of tax regulations. The provisions of IFRIC 23 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.
• Amendments to IFRS 9 "Prepayment features with negative compensation". On October 12th,

2017 the IASB issued Amendments to IFRS 9 to deal with some issues concerning the applicability and classification of IFRS 9 "Financial Instruments" as to certain financial assets, whose early repayment is permitted. Furthermore, the IASB clarifies some issues concerning the accounting for financial liabilities following changes in the same. The provisions of Amendments to IFRS 9 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

• Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures". On October 12th, 2017 the IASB issued Amendments to IAS 28 to clarify the application of IFRS 9 'Financial Instruments' for long-term interests in subsidiaries or joint ventures included in investments in these entities for which the equity method is not applied. The provisions of Amendments to IAS 28 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

• "Annual improvements to IFRSs: 2015-2017 Cycle". The IASB has published the Annual Improvements to IFRSs, 2015-2017 Cycle, which include amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements. The amendments will become effective from January 1st, 2019. Early application is permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

• IFRS 17 "Insurance Contracts". On May 18th, 2017 the IASB issued IFRS 17 "Insurance contracts", which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts, in order to give a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The provisions of IFRS 17 will become effective from periods beginning on or after January 1st, 2021. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

• Amendments to IAS19, "Employee benefits'- Plan amendment, Curtailment or settlement". On February 7th, 2018 the IASB issued these amendments to clarify how to calculate pension costs when there is a change in defined-benefit plans. The provisions of Amendments to IAS 19 will become effective from periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

3.1 Use of estimates. Preparation of the financial statements and notes in conformity with IFRS requires that management make judgments, estimates and assumptions which impact on the values reported for assets and liabilities, as well as disclosures relating to contingent assets and liabilities at the balance sheet date. Estimates and assumptions are based on historical data and other elements deemed significant, as at the end of the accounting period of reference.

3.2 Consolidation principles. A subsidiary is an investee over which the TOD'S Group has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, as defined by IFRS 10 – Consolidated Financial Statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is acquired until such control terminates.

Acquisitions of subsidiaries are recognized according to the acquisition method. The considerations transferred in a business combination is represented by the aggregate sum, at the acquisition date, of the fair values of the acquired assets, the liabilities incurred or assumed, and the equity interest issued in exchange for control of the acquired entity.

The identifiable assets, liabilities, and potential liabilities of the acquired entity that satisfy the recognition criteria envisaged in IFRS 3 are recognised at their fair value on the acquisition date, with the exception of non-current assets (or groups available to sale) that are classified as held for sale in accordance with IFRS 5.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests over the net amounts of the identifiable assets acquired and liabilities assumed pursuant to the acquisition. Should the aforesaid difference be negative, the excess is immediately booked in the income statement.

Once control of an entity has been acquired, the transactions where the controlling entity acquires or transfers additional non-controlling interests without altering control over the subsidiary are transactions with shareholders and are thus recognised in equity.

Subsidiaries are consolidated according to the line-by-line method from the date on which control is transferred to the Group. They are deconsolidated starting on the date when such control ceases. The scope of consolidation and the related changes respect to the previous year are represented in the Note 4.

Intercompany transactions and the profits and losses generated by transactions between consolidated enterprises are eliminated from both the balance sheet and the profit and loss account. Unrealised losses arising from intercompany transactions are considered when the transaction entails an impairment in the value of the transferred asset.

When necessary, the balance sheets and profit and loss accounts of the subsidiaries are adjusted in order to bring the applied accounting policies in line with those used by the Group.

3.3 Non-controlling interests. Non-controlling interests are indicated under shareholders' equity as "Non-controlling interests " The non-controlling interests in the acquired business is initially determined in an amount equal to their share of the fair value of the assets, liabilities, and potential liabilities recorded on the date of the original acquisition date and subsequently adjusted according to the changes in shareholders' equity. Likewise, this account reflects the changes in non-controlling interests and any losses allocable to them.

3.4 Transactions in foreign currency.

i. Functional and reporting currency. All accounts recognised on the financial statements of the subsidiaries are measured by using the currency of the principal economic environment in which the entity operates (i.e. its functional currency). The Consolidated Financial Statements are stated in euro (rounded to the nearest thousand), since this is the currency in which most Group transactions are executed.

ii. Transactions in foreign currency. The financial statements of the individual Group entities are prepared in the functional currency of each individual company. When the individual financial statements are prepared, the foreign currency transactions of Group companies are translated into the functional currency (currency of the primary economic environment in which each entity operates) by applying the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the financial statements are translated by using the exchange rate in effect at the closing date. Non-monetary assets and liabilities are valued at their historic cost in foreign currency and translated by using the exchange rate in effect at the transaction date.
The foreign exchange differences arising upon settlement of these transactions or translation of cash assets and liabilities are recognized on the profit and loss account.

iii. Net investment in foreign operation. A monetary item receivable from or payable to a foreign operation for which the settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

In the consolidated financial statements that include the foreign operation the exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

iv. Presentation of financial statements drafted in foreign currency. In order to present the financial statements of consolidated entities that are expressed in a functional currency different from the consolidation currency, the balance sheet items are translated using the exchange rates in effect at the end of the period, while items on the profit and loss account are translated using the average exchange rate for the period. The difference between the result for the period resulting from translation at the average exchange rates and the result of translation at the end of period rates, on the one hand, and the impact on assets and liabilities of changes in the exchange rate relationships between the beginning and end of the period, on the other hand, are recognized under shareholders' equity in a special "Translation reserve" through the recognition in the other comprehensive income.

The translation differences recognized under shareholders' equity are transferred to the profit and loss account at the time of disposal or liquidation of the controlled entity.

The rates applied to translation, compared with those used in the previous year, are indicated in the following table:

	Year 2017		Year 2016	
	Exch. rates as of year end	Average exch. rate	Exch. rates as of year end	Average exch. rate
U.S. dollar	1.199	1.129	1.054	1.106
British pound	0.887	0.876	0.856	0.816
Swiss franc	1.170	1.112	1.074	1.090
Hong Kong dollar	9.372	8.801	8.175	8.586
Japanese yen	135.010	126.655	123.400	120.065
Hungarian forint	310.330	309.273	309.830	311.432
Singapor dollar	1.602	1.558	1.523	1.527
Korean won	1,279.610	1,275.830	1,269.360	1,283.419
Macao pataca	9.653	9.065	8.420	8.845
Chinese renmimbi	7.804	7.626	7.320	7.348
Indian rupee	76.606	73.498	71.594	74.330
Albanian lek	133.580	134.130	135.631	137.317
Brazilian real	3.973	3.604	3.431	3.836
Canadian dollar	1.504	1.464	1.419	1.465
Australian dollar	1.535	1.473	1.460	1.487
Danish krone	7.445	7.439	7.434	7.445

3.5 Derivative financial instruments. The fundamental characteristics of the derivative financial instruments are set out in the paragraph on Derivative financial instruments (Note 15).

The TOD'S Group uses derivatives to hedge foreign currency risks arising from its operations and to hedge risks associated with changes in interest rates on loans, with no speculative or trading purposes consistently with the treasury management strategy policies recommended by the Board of Directors.

As derivatives transactions are carried out to hedge risks arising from changes in expected cash flows (forecast transactions), they are accounted for according to cash flow hedge rules until the transaction is reported in the financial statements; subsequently, derivatives are treated according to fair value hedge rules since they may be described as instruments to hedge changes in the value of assets/liabilities recognised in the financial statements.

According to hedge accounting rules, derivatives are recognised in the balance sheet at fair value; how fair value changes are reported differs according to the type of hedge on the measurement date:

- any changes in the fair value of derivatives that hedge forecast transactions (i.e. cash flow hedge) are recognised directly in the appropriate equity reserve, except for the portion of the change related to the ineffective part of the hedge, which is recognised under financial income and charges in the income statement; the differences in fair value already directly recognised in the appropriate equity reserve are fully recognised in the income statement, as an adjustment to operating margins, when the assets/liabilities relating to the hedged items are recognised. As regards derivatives used to hedge risks associated with changes in interest rates on loans, the fair value differences already recognised in the equity reserve are, on the other hand, allocated to adjusting the amounts of financial income and costs when the positive or negative differentials are settled;
- any differences in the fair value of derivatives that hedge assets and liabilities reported in the financial statements (i.e. fair value hedge) are fully recognised under financial income and charges in the income statement. Additionally, the carrying amount of the hedged item (asset/liability) is adjusted by the change in its value that is attributable to the hedged risk, against an entry under financial income and charges.

3.6 Intangible fixed assets.

i. Goodwill. All business combinations are recognized by applying the acquisition method. Goodwill is measured at the acquisition date as the excess of the assets and liabilities and the fair value of consideration transferred including the amount of any non-controlling interests recognised. For acquisitions prior to January 1st, 2004, the date of transition to IAS/IFRS, goodwill retained the values recognized on the basis of the previous Italian GAAP, net of accumulated amortization up to the transition date.

Goodwill is recognized on the financial statements at its cost adjusted for impairment losses. It is not subject to amortization, but the adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section Impairment losses.

ii. Trademarks. These are recognized according to the value of their cost and/or acquisition, net of accumulated amortization at the date of transition to IAS/IFRS. TOD'S, HOGAN, FAY and ROGER VIVIER trademarks are classified as intangible fixed assets with an indefinite useful life and thus are not amortized, insofar as:

- they play a primary role in the Group's strategy and are an essential driver thereof;
- the corporate structure, construed as organized property, plant, and equipment, and organization itself in a figurative sense, is closely correlated with and dependent on dissemination and development of the trademarks on the markets;
- the trademarks are proprietary, properly registered, and constantly protected pursuant to law, with options for renewal of legal protection, upon expiration of the registration periods, that are not burdensome, easily implemented, and without external impediments;
- the products sold by the Group with these trademarks are not subject to particular technological obsolescence, which is characteristic of the luxury market in which the Group operates; on the contrary, they are consistently perceived by the market as being innovative in the national and/or international context characteristic of each trademark, they are distinguished by market positioning and notoriety that ensures their dominance of the respective market segments, being constantly associated and compared with benchmark brands;
- in the relative competitive context, it can be affirmed that the investments made for maintenance of the trademarks are proportionately modest with respect to the large forecast cash flows.

The adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section Impairment losses.

iii. Key Money. Key money, represent the amounts paid for this purpose by the Group to take over certain leases of commercial spaces where some DOS operate. They are recognized at cost, which consider the cost net of cumulated depreciations and impairment losses.

iv. Research and development costs. The research costs for a project are charged fully to the profit and loss account of the period in which they are incurred.

The development costs of an activity are instead capitalized if the technical and commercial feasibility of the relative activity and economic return on the investment are certain and definite, and the Group has the intention and resources necessary to complete the development.

The capitalized costs include the costs for materials, labor, and an adequate portion of indirect costs. They are recognized at cost, net of accumulated amortization and depreciation (see below) and impairment losses.

v. Other intangible fixed assets. These are identifiable non-monetary intangible assets under the control of the company and capable of causing the Group to realize future economic benefits. They are initially recognized at their purchase cost, including expenses that are directly attributable to them during preparation of the asset for its intended purpose or production, if the conditions for capitalization of expenses incurred for internally generated expenses are satisfied.

The cost method is used for determining the value reported on subsequent statements, which entails posting the asset at its cost net of accumulated amortization and write-downs for impairment losses.

vi. Subsequent capitalization. The costs incurred for these intangible fixed assets after purchase are capitalized only to the extent that they increase the future economic benefits of the specific asset they refer to. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

vii. Amortization. Intangible fixed assets (excluding those with an indefinite useful life) are amortized on a straight-line basis over the period of their estimated useful life, starting from the time the assets are available for use.

3.7 Tangible assets and investment properties

i. Property, plant, and equipment owned by the company. They are first recognized at their purchase cost or at the cost recalculated at the date of transition to IFRS, including any directly attributable ancillary expenses.

Following first-time recognition, these assets are reported net of their accumulated depreciation and impairment losses (i.e. in accordance with the cost model).

For those assets whose depreciation must be calculated using the component approach, the portions of cost allocable to the individual significant components characterized by a different useful life are determined. In this case, the value of land and buildings is kept separate, with only buildings being depreciated.

ii. Leasing. Lease agreements in which the Group assumes all the risks and benefits deriving from ownership of the asset are classified as finance leasing. The assets (real estate, plant, and machinery) possessed pursuant to these agreements are recorded under property, plant, and equipment at the lesser of their fair value on the date the agreement was made, and the current value of the minimum payments owed for leasing, net of accumulated depreciation and any impairment losses (according to the rules described in the section *Impairment losses*). A financial payable for the same amount is recognized instead under liabilities, while the component of interest expenses for finance leasing payments is reported on the profit and loss account according to the effective interest method.

iii. Subsequent capitalizations. The costs incurred for property, plant, and equipment after purchase are capitalized only to the extent that they increase the future economic benefits of the asset. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

iv. Investment property. Investment property are originally recognized at cost, and then recognized at their cost as adjusted for accumulated depreciation and impairment losses.

Depreciation is calculated on a systematic, straight-line basis according to the estimated useful life of the buildings.

v. Depreciation. Property, plant, and equipment were systematically depreciated at a steady rate according to the depreciation schedules defined on the basis of their estimated useful life. Land is not depreciated. The principal depreciation rates applied are as follows:

	% depreciation
Industrial buildings	2.5% - 3%
Machinery and plant	12.5%
Equipments	25%
Forms and punches, clichés, molds and stamp	25%
Furniture and furnishings	12%
Office machines	20%
Cars and transport vehicles	20% - 25%

The photovoltaic plant recognised by the parent company is depreciated over a period of 20 years.

The costs for leasehold improvements, which mainly include the costs incurred for set up and modernization of the DOS network and all the other real estate that is not owned but used by the Group (and thus instrumental to its activity) are depreciated according to the term of the lease agreement or the useful life of the asset, if this is shorter.

3.8 Impairment losses. In the presence of indicators, events, or changes in circumstances that presume the existence of impairment losses, IAS 36 envisages subjecting intangible fixed assets and property, plant and equipment to the impairment test in order to assure that assets with a value higher than the recoverable value are not recognized on the financial statements. This test is performed at least once annually for non-current assets with an indefinite life in the same way as that used for non-current assets that have not yet been placed in service.

Confirmation of the recoverability of the values recognized on the balance sheet is obtained by comparing the book value at the reference date and the fair value less costs to sale (if available)

or value in use. The value in use of a tangible or intangible fixed asset is determined according to the estimated future financial flows expected from the asset, as actualized through use of a discount rate net of taxes, which reflects the current market value of the current value of the cash and risks related to Group's activity.
If it is not possible to estimate an independent financial flow for an individual asset, the cash generating unit to which the asset belongs and with which it is possible to associate future cash flows that can be objectively determined and independent from those generated by other operating units is identified. Identification of the cash generating units was carried out consistently with the organizational and operating architecture of the Group.
If the impairment test reveals an impairment loss for an asset, its book value is reduced to the recoverable value by posting a charge on the profit and loss account, unless the asset is revalued. In that case, the write-down is recognized in the revaluation reserve.
When the reasons for a write-down cease to exist, the book value of the asset (or the cash generating unit), with the exception of goodwill, is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the impairment loss had not been charged. The restored value is recognized immediately on the profit and loss account, unless the asset is revalued, in which case the restored value is recognized in the revaluation reserve.

3.9 Financial assets. These are recognized and cancelled on the balance sheet according to the trading date and are initially valued at fair value which generally correspond to the cost, including costs directly related with the acquisition.
At the subsequent financial statement dates, the financial assets that the Group intends and is able to hold until maturity (securities held to maturity) are recognized at the amortized cost according to the effective interest method, net of impairment losses.
Financial assets other than those held to maturity are classified as held for trading or available for sale, and are recognized at their fair value at the end of each period. When the financial assets are held for trading, the profits and losses deriving from changes in the fair value are recognized in the profit and loss account for the period. In the case of financial assets available for sale, the profits and losses deriving from changes in the fair value are recognized directly in shareholders' equity until they are sold or have sustained a loss in value. At that time, the aggregate profits or losses that were previously recognized in shareholders' equity are recognized on the profit and loss account of the period.

3.10 Inventories. These are recognized at the lower of purchase cost and their assumed

disposal value. The net disposal value represents the best estimate of the net sales price that can be realized through ordinary business processes, net of any production costs not yet incurred and direct sales costs.
The cost of inventories is based on the weighted average cost method. The production cost is determined by including all costs that are directly allocable to the products, regarding – for work in progress and/or semi-finished products – the specific stage of the process that has been reached. The values that are thus obtained do not differ appreciably from the current production costs referring to the same classes of assets.
A special depreciation reserve is set aside for the portion of inventories that are no longer considered economically useable, or with a presumed disposal value that is less than the cost recognized on the financial statements.

3.11 Trade receivables and other receivables. These are initially recognised at fair value, including transaction costs, and subsequently measured at amortized cost. The measurement considers the recoverable amount of the assets through the recognition of a specific allowance for doubtful accounts determined as follows:

- receivables under litigation, with certain and precise evidence documenting the impossibility of collecting them, have been analytically identified and then written down;
- for other bad debts, prudent allowances for write-downs have been set aside, estimated on the basis of information updated at the date of this document.

3.12 Cash and cash equivalents. This includes cash on hand, bank demand deposits, and financial investments with a maturity of no more than three months. These assets are highly liquid, easily convertible into cash, and subject to a negligible risk of change in value.

3.13 Assets and liabilities held for sale. Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is recovered through a sale transaction rather than through continuing use. They are not depreciated and are measured at the lower of carrying amount and fair value, less costs to sell. Assets held for sale and related liabilities are presented separately from other assets and liabilities in the statement of financial position. TOD'S Group doesn't held any assets and liabilities held for sale as at December 31st, 2017.

3.14 Benefits for employees. Employee benefits include (i) short-term employee benefits such as wages, salaries and related social security contributions, accrued but not yet paid, paid annual leave and paid sick leave, etc.; (ii) post-employment benefits, such as pensions or retirement

benefits; (iii) other long-term benefits; and (iv) termination benefits.
Short-term benefits are recognised periodically on an accruals basis and are made up of liabilities to employees that have not been settled by the reporting date.
Post-employment benefits are divided into two categories:

i. **Defined contribution plans.** Payments for any defined contribution plans are recognised in the income statement in the period in which they are due.

ii. **Defined benefit plans.** The costs of defined benefit plans are calculated using the Projected Unit Credit Method, carrying out the actuarial measurements at the end of each financial year. Past service costs are recognised immediately to the extent that these benefits have already accrued; otherwise they are amortised on a straight-line basis within the average period within which the benefits are expected to accrue. The financial costs that have accrued on the basis of the annual discounting rate are recognised in the income statement immediately. Actuarial gains and losses are now recognised through other changes in comprehensive income under the specific equity item.
Liabilities for post-employment benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans. On the other hand, there are no other long-term employee benefits or termination benefits in the financial statements.

iii. **Share based payments.** The payments based on shares are assessed at their fair value on the assignment date. This value is recognized on the profit and loss account on a straight-line basis throughout the period of accrual of the rights. This allocation is made on the basis of a management estimate of the stock options that will actually accrue in favor of vested employees, considering the conditions for use thereof not based on their market value.
The fair value is determined by using the binomial method. No share based payments result in the current consolidated financial statements.

3.15 Payables.

i. **Bank overdrafts and financing.** Interest-bearing financing and bank overdrafts are initially recognized at fair value, net of transaction costs, and subsequently valued at the amortized cost, using the effective interest method.
ii. **Trade payables and other payables.** These are measured at fair value which generally correspond to their nominal value.

3.16 Provision for risks. These are certain or probable liabilities that have not been determined at the date they occurred and in the amount of the economic resources to be used for fulfilling

the obligation, but which can nonetheless be reliably estimated. They are recognized on the balance sheet in the event of an existing obligation, legal or constructive, resulting from a past event, and it is likely that the Group will be asked to satisfy the obligation.
If the effect is significant, and the date of the presumed discharge of the obligation can be estimated with sufficient reliability, the provisions are recognized on the balance sheet discounting future cash flows.
The provisions that can be reasonably expected to be discharged twelve months after the reference date are classified on the financial statements under non-current liabilities. Instead, the provisions for which the use of resources capable of generating economic benefits is expected to take place in less than twelve months after the reference date are recognized as current liabilities.

3.17 Share capital.

i. **Share capital.** The total value of shares issued by the parent company is recognized entirely under shareholders' equity, as they are the instruments representing its capital.
ii. **Treasury stock.** The consideration paid for buy-back of share capital (treasury stock), including the expenses directly related to the transaction, is subtracted from shareholders' equity. In particular, the par value of the shares reduces the share capital, while the excess value is recognized as an adjustment to additional paid-in capital.

3.18 Dividends. The allocation of dividends to persons possessing instruments representing share capital after the reference date of the financial statement is not recognized under financial liabilities on the same reference date.

3.19 Revenues recognition. Revenues are recognized on the profit and loss account when the significant risks and benefits connected with ownership of the transferred assets are transferred to the buyer. In reference to the main transactions realized by the Group, revenues are recognized on the basis of the following principles:
i. **Sales of goods – retail.** The Group operates in the retail channel through its DOS network. Revenues are recognised when the goods are delivered to customers. Sales are usually collected in the form of cash or through credit cards.
ii. **Sales of goods – wholesale.** The Group distributes products on the wholesale market. These revenues are recognised when the goods are shipped and considering the estimated effects of returns at the end of the year.

iii. Provision of services. These revenues are accounted for in proportion to the stage of completion of the service rendered at the reference date and in accordance with contractual provisions.

iv. Royalties. These are recognised on the financial statements on accrual basis.

3.20 Financial income and expenses. These include all financial items recognized on the profit and loss account for the period, including interest expenses accrued on financial payables calculated by using the effective interest method (mainly current account overdrafts, medium-long term financing), foreign exchange gains and losses, gains and losses on derivative financial instruments (according to the previously defined accounting principles), received dividends, the portion of interest expenses deriving from accounting treatment of assets held under finance leasing (IAS 17) and employee reserves (IAS 19).
Interest income and expenses are recognized on the profit and loss account for the period in which they are realized/incurred, with the exception of capitalized expenses (IAS 23).
Dividend income contributes to the result for the period in which the Group accrues the right to receive the payment.

3.21 Income taxes. The income taxes for the period include determination both of current taxes and deferred taxes. They are recognized entirely on the profit and loss account and included in the result for the period, unless they are generated by transactions recognized directly to shareholders' equity during the current or another period. In this case, the relative deferred tax liabilities are also recognized under shareholders' equity.
Current taxes on taxable income for the period represent the tax burden determined by using the tax rates in effect at the reference date, and any adjustments to the tax payables calculated during previous periods. Deferred tax liabilities refer to the temporary differences between the book values of assets and liabilities on the balance sheets of consolidated companies and the associated values relevant for determination of taxable income.
The tax liability of all temporary taxable differences, with the exception of liabilities deriving from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not influence either the income (loss) reported on the financial statements or taxable income (tax loss). Deferred tax assets and liabilities are only offset if there is a legally enforceable right to set off the related current taxes and if the deferred tax assets and liabilities consist of income tax levied by the same tax authority.
Deferred tax assets that derive from temporary deductible differences are recognized on the financial statements only to the extent that it is likely that taxable income will be realized for

which the temporary deductible difference can be used. No recognition is envisaged if the difference between the carrying amount and the tax base results from a business combinations, or from the initial posting of an asset or liability in a transaction, other than a business combination.

The tax benefits resulting from tax losses are recognised in the financial statements in the period when those benefits are accrued, if it is likely that the Group's entity which recognised the tax loss will have sufficient taxable income before the right to use that benefit expires. The taxes in question (deferred tax assets and liabilities) are determined on the basis of a forecast of the assumed percentage weight of the taxes on the income of the fiscal years in which the taxes will occur, taking into account the specific nature of taxability and deductibility. The effect of change in tax rates is recognized on the profit and loss account of the fiscal year in which this change takes place.

Tax provisions that could be generated from transfers of non-distributable profits from subsidiaries are recognised only when there is a real intention to transfer such profits.

3.22 Statement of cash flows. The statement of cash flows is drafted using the indirect method. The net financial flows of operating activity are determined by adjusting the result for the period of the effects deriving from change to net operating working capital, non-monetary items, and all the other effects connected with investment and financing activities.

Cash flows from investing and financing activities are represented net of exchange rate differences, which are represented in a separate line of the statement of cash flows. Net cash and cash equivalents are made up cash and cash equivalents net of bank overdrafts.

4. Scope of Consolidation

Changes in the scope of consolidation at December 31st, 2017 in respect to December 31st, 2016 are due to:

-On May 4th, 2017 it has been closed the transfer of 100% of shares representing the share capital of TOD'S Brazil Ltda, for a consideration of 2,682 thousand euros. Expenses and income of the transferred entity have been included in the consolidated income statement at December 31st, 2017 up to March 31st, 2017 instead of up to the date of which the loss of control occurred. That did not caused any significant effects on the result for the period;

-On May 11th, 2017, the company TOD'S UK Ltd. acquired, for 469 thousand GBP, the additional 50% of company shares representing the share capital of the company Webcover Ltd. (already consolidated with the integral global method), which manages the store located in London at Sloane Street. The difference between the consideration paid and the carrying amount of minority interests, amounting to 118 thousand euros, has been represented as an increase of group equity in accordance with IFRS 3. In connection with the above mentioned acquisition, on May 11th, 2017, TOD'S UK Ltd., in addition, acquired 100% of company shares representing the share capital of Buena Ltd., for a consideration paid amounting to 1,600 thousand GBP, referred to the key money related to the store managed by Webcover Ltd.

These operations represent the only changes in the scope of consolidation from the Consolidated Financial Statements at December 31st, 2016.

The scope of consolidation, complete details of which are provided hereunder, has not undergone other changes:

Parent Company

TOD'S S.p.A.
S.Elpidio a Mare - Italy
Share Capital (S.C.) - euro 66,187,078

Direct Subsidiaries

TOD'S Deutsch. Gmbh Munich - Germany S.C. - euro 153,387.56 % held: 100%	**TOD'S France Sas** Paris - France S.C. - euro 780,000 % held: 100%	**An.Del. USA Inc.** New York - U.S.A S.C. - Usd 3,700,000 % held: 100%	**TOD'S International BV** Amsterdam – Netherlands S.C. - euro 2,600,200 % held: 100%
Del.Com S.r.l. S.Elpidio a Mare - Italy S.C. - euro 31,200 % held: 100%	**Holpaf B.V.** Amsterdam – Netherlands S.C. - euro 5,000,000 % held: 100%	**Roger Vivier S.p.A.** S.Elpidio a Mare – Italy S.C. – euro 10,000,000 % held: 100%	**TOD'S Danmark APS** Copenhagen - Denmark S.C. – Dkk 500,000 % held: 100%
TOD'S Austria Gmbh Vienna - Austria S.C. – euro 50,000 % held: 100%			

Indirect subsidiaries

Cal.Del. USA Inc. Beverly Hills, Ca - U.S.A. S.C. - Usd 10,000 % held: 100%	**TOD'S Tex Del USA Inc.** Dallas, Tx - U.S.A S.C. - Usd 10,000 % held: 100%	**Deva Inc.** Wilmington, De – U.S.A. S.C. - Usd 500,000 % held: 100%	**Flor.Del. USA Inc.** Tallahassee, Fl - U.S.A. S.C. - Usd 10,000 % held: 100%
Hono.Del. Inc. Honolulu, Hi - U.S.A. S.C. - Usd 10,000 % held: 100%	**Il.Del. USA Inc.** Springfield, Il - U.S.A. S.C. - Usd 10,000 % held: 100%	**Neva.Del. Inc.** Carson City, Nv - U.S.A. S.C. - Usd 10,000 % held: 100%	**Or.Del. USA Inc.** Sacramento, Ca - U.S.A. S.C. - Usd 10,000 % held: 100%
Gen.Del SA Zurich - Switzerland S.C. - Chf 200,000 % held: 100%	**Sandel SA** San Marino S.C. - euro 258,000 % held: 100%	**TOD'S Belgique S.p.r.l.** Bruxelles - Belgium S.C. - euro 300,000 % held: 100%	**TOD'S Espana SL** Madrid – Spain S.C. - euro 500,000 % held: 100%
TOD'S Hong Kong Ltd Hong Kong S.C. - Usd 16,550,000 % held: 100%	**TOD'S Japan KK** Tokyo - Japan S.C. - Jpy 100,000,000 % held: 100%	**Alban.Del Sh.p.k.** Tirana - Albania S.C. - euro 720,000 % held: 100%	**TOD'S India Retail Pte Ltd** Mumbai - India S.C. - Inr 193,900,000 % held: 100%

Indirect subsidiaries			
TOD'S Singapore Pte Ltd Singapore S.C. - Sgd 300,000 % held: 100%	**Un.Del Kft** Tata - Hungary S.C. - Huf 42,900,000 % held: 100%	**TOD'S UK Ltd** London - Great Britain S.C. - Gbp 350,000.00 % held: 100%	**Webcover Ltd** London - Great Britain S.C.- Gbp 2 % held: 100%
Roger Vivier Paris Sas Paris - France S.C. - euro 6,700,000 % held: 100%	**TOD'S Korea Inc.** Seoul - Korea S.C. - Won 2,000,000,000 % held: 100%	**TOD'S Macao Ltd** Macau S.C. - Mop 20,000,000 % held: 100%	**TOD'S (Shanghai) Tr. Co.** Shanghai - China S.C. - Usd 32,000,000 % held: 100%
Re.Se.Del. S.r.l. S.Elpidio a Mare - Italy S.C. - euro 25,000.00 % held: 100%	**Del.Pav. S.r.l.** S.Elpidio a Mare - Italy S.C. - euro 50,000 % held: 50%	**Filangieri 29 S.r.l.** S.Elpidio a Mare - Italy S.C. - euro 100,000 % held: 50%%	**Roger Vivier Japan KK** Tokyo – Japan S.C. – Jpy 10,000,000 % held: 100%
Roger Vivier Hong Kong Ltd Hong Kong S.C. – Hkd 1,000,000 % held: 100%	**Roger Vivier Sing. PTE Ltd** Singapore S.C. – Sgd 200,000 % held: 100%	**Roger Vivier (Shan.) Tr.Co.** Shanghai – China S.C. – Rmb 75,000,000 % held: 100%	**Roger Vivier UK Ltd** London – Great Britain S.C. – Gbp 150,000 % held: 100%
TOD'S Georgia Inc. Norcross, GA – USA S.C. – Usd 10,000 % held: 100%	**Roger Vivier France SaS** Paris – France S.C. – euro 3,507,500 % held: 100%	**Roger Vivier Korea Inc.** Seoul – Korea S.C. – Won 1,200,000,000 % held: 100%	**Roger Vivier Switzerland** Lugano – Switzerland S.C. – Chf 2,000,000 % held: 100%
Roger Vivier Macau Lda Macau S.C. – Mop 500,000 % held: 100%	**TOD'S Washington Inc.** Tumwater, Wa – U.S.A. S.C. – Usd 10,000 % held: 100%	**Ala. Del. Inc.** Wilmington, De – U.S.A. S.C. – Usd 10,000 % held: 100%	**Tod's Massachussets Inc** Boston, Ma – U.S.A. S.C. – Usd 10,000 % held: 100%
Buena Ltd. London – Great Britain S.C. – Gbp 1 % held: 100%			

It is assumed that the Group controls those companies in which it does not own more than 50% of the capital, and thus disposes of the same percentage of voting power at the Shareholders' Meeting, where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, as defined by IFRS 10 – Consolidated Financial Statements.

5. Segment reporting

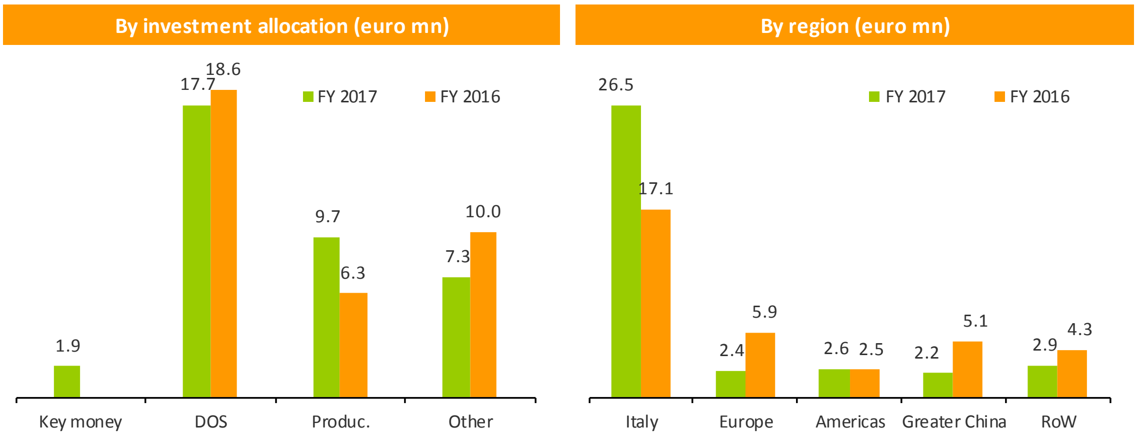
The search for higher levels of operating efficiency has identified as key element for maximising profitability via the sharing of a significant portion of service activities (first and foremost production), both at the central and peripheral levels; on the contrary, segmentation of the business appears uneconomical, under current circumstances.

At the operating level, the Group's organisation is based on an articulated matrix structure according to the different functions/activities in the value chain, alternatively according to brand, product, channel and geographical area. The overall organisation envisages a unified strategic vision of the business.

This type of organisation is reflected in the ways in which management monitors and strategically focuses the Group's activities.

In order to have a more detailed examination, the Report of the Board of Directors, to which reference is made, includes operating information, including a breakdown of consolidated revenues by BRAND, CHANNEL, PRODUCT and REGION. Below are provided some further details for completion.

2017 *Capital expenditures*

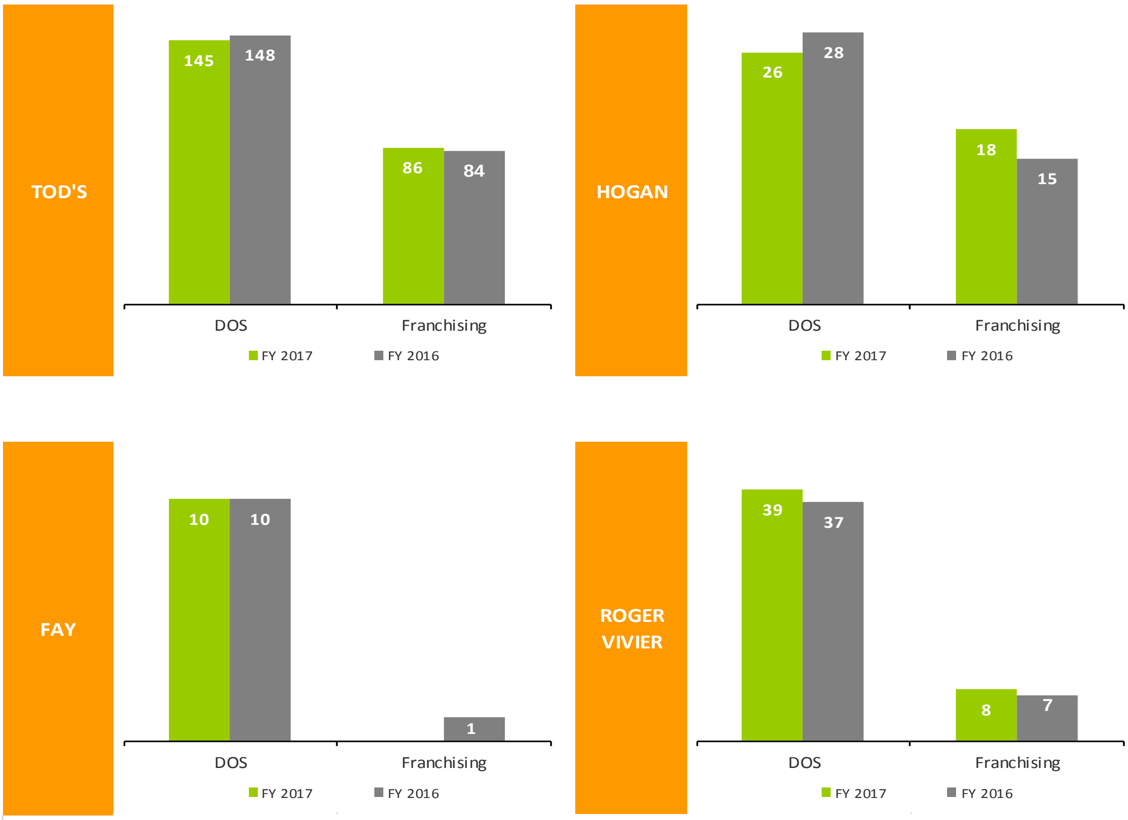


The tables illustrated above, for the year 2016, don't include both the amount of the acquired brand ROGER VIVIER (415 million euros) and the tangible and intangible assets of the company Roger Vivier Paris sas (about 3.6 million euros).

Distribution network

TOD'S Group - Distribution channel		Year 17	Year 16
Italy	DOS	48	48
	FRANCHISED STORES	2	2
Europe	DOS	60	58
	FRANCHISED STORES	20	19
Americas	DOS	22	22
	FRANCHISED STORES	3	2
Greater China	DOS	82	83
	FRANCHISED STORES	34	31
RoW	DOS	63	61
	FRANCHISED STORES	53	53
Total DOS		**275**	**272**
Total FRANCHISED STORES		**112**	**107**

The table below, which shows the breakdown of the distribution network by brand, doesn't include the DOS which sell products of more than one brand of the Group.



6. Management of financial risks (IFRS 7)

The TOD'S Group has implemented a system for monitoring its financial risks in accordance with the guidelines set out in the Corporate Governance Code of Listed Companies. As part of this policy, the Group constantly monitors the financial risks connected with its operations, in order to assess their potential negative impact and undertake appropriate action to mitigate them.

The following analysis of financial risks faced by the TOD'S Group highlights the Group's level of exposure. It also includes a sensitivity analysis designed to quantify the potential impact of hypothetical fluctuations in benchmark parameters on final results.

i. Credit risk

Credit risk represents the exposure of the TOD'S Group to potential losses stemming from failure to discharge its obligations towards trading counterparties. Sales revenues for 2017 resulting from wholesale distribution channel are 35.5% of total sales. The Group subjects these revenues to a hedging policy designed to streamline credit management and reduction in the associated risk. In particular, the Group's policy does not envisage granting credit to customers, with periodic analyses of the creditworthiness of all customers, both long-standing and potential ones, in order to monitor and prevent possible solvency crises.

The following table illustrates the ageing of trade receivables outstanding at December 31st, 2017 gross of allowance for doubtful accounts:

In euro 000's		Overdue			
	Current	0 > 60	60 > 120	Over	Total
From third parties	76,635	24,417	2,486	10,479	114,017

The prudent estimate of losses on the entire credit mass existing at December 31st, 2017 was 6.5 million euros. The total amount of overdue receivables at December 31st, 2017 for 37.4 million euros is now about 12.4 million euros.

ii. Liquidity risk

The liquidity risk represents the risk stemming from the unavailability of financial resources as necessary to meet the short-term commitments assumed by the Group and its own financial requirements.

The main factors that determine the Group's degree of liquidity are the resources generated or used by operating and investment activities and, on the other hand, the due dates or renewal dates of its payables or the liquidity of its financial investments and market conditions.

This risk is limited by taking actions aimed at ensuring a balanced structure of the Group's capital and by maintaining such a level of cash and cash equivalents as is required to meet its financial debt requirements at the relevant maturity dates in an adequate manner.

The table below shows the credit lines already used and available at December 31st, 2017 compared with December 31st, 2016:

Credit lines euro 000's	Cash Credit lines	Self-liquidating Credit lines	Financial Credit lines	Total
12.31.17				
Credit lines	65,613	161,300	300,000	526,913
Utilizations	(15,816)	(94)		(15,910)
Credit lines available as of 12.31.17	**49,797**	**161,206**	**300,000**	**511,003**
12.31.16				
Credit lines	67,912	160,041	300,000	527,953
Utilizations	(15,713)			(15,713)
Credit lines available as of 12.31.16	**52,199**	**160,041**	**300,000**	**512,240**

Furthermore, it should be noted that, the Company, in order to borrow the liquid funds needed to meet any possible requirement connected with ordinary sales and general corporate operation, entered into three loan agreements, by which have been granted three medium/long-term revolving credit facilities respectively by: i) Crédit Agricole Corporate and Investment Bank and Cassa di Risparmio di Parma e Piacenza S.p.A. (Crédit Agricole Group), signed on January 27th 2016, for a maximum amount of 100 million euros, ii) Unicredit S.p.A., signed on November 9th 2016, for a maximum amount of 100 million euros and iii) B.N.L. S.p.A., signed on November 28th 2016, for a maximum amount of 100 million euros. These credit facilities will be available for a period of 3 years. At December 31st, 2017 no amount has been used in connection with the above mentioned credit facilities.

The table below shows the maturity of the outstanding financial liabilities at December 31st, 2017 and 2016:

euro 000's	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
12.31.17				
Bank borrowings		147,617		147,617
Other non-current liabilities		10,287		10,287
Trade payables	158,388			158,388
Bank	64,654			64,654
Derivative financial instruments	2,459	1,197		3,656
Other current liabilities	1,063			1,063
Total	**226,564**	**159,101**		**385,665**
12.31.16				
Bank borrowings		197,139		197,139
Other non-current liabilities		9,973		9,973
Trade payables	130,804			130,804
Bank	65,948			65,948
Derivative financial instruments	8,046	2,687		10,733
Other current liabilities	1,464			1,464
Total	**206,262**	**209,799**		**416,061**

Particular attention is paid to the definition of the credit counterparty that is considered to be suitable for cash operations and that is identified according to increasingly selective liquidity, security and yield criteria and in line with the Management's instructions.

Considering the Company profitability and its capacity to generate cash, it's reasonable to believe that liquidity risk is not significant. Moreover, it should be noted that such capacity of generating cash may allow Company to meet these commitments in a period of time that is potentially shorter than that in which the loans and credit facilities are expected to be available.

Finally, as regards financial assets, the Group's policy is to continue to invest all of its available liquid funds in sight bank deposits or in short-term liquidity, without making use of financial instruments, including those of the money market, and dividing its deposits among an adequate number of banks, which are carefully selected by taking account of financial soundness and reliability parameters, geographical location and level of remuneration offered.

iii. Market risk

IFRS 7 includes in this category all risks that are directly or indirectly connected with the fluctuation in prices on physical and financial markets to which the company is exposed:

– exchange rate risk;
– interest rate risk;
– commodity risk, connected with the volatility of prices for the raw materials used in the production process.

The TOD'S Group is exposed to exchange rate and interest rate risk, since there is no physical market subject to actual fluctuations in the purchase prices for raw materials used in the production process.

The following paragraphs analyse the individual risks, using sensitivity analysis as necessary to highlight the potential risk on final results stemming from hypothetical fluctuations in benchmark parameters. As envisaged by IFRS 7, these analyses are based on simplified scenarios applied to the final results for the periods referred to. By their very nature, they cannot be considered indicators of the actual effects of future changes in benchmark parameters of a different asset and liability structure and financial position different market conditions, nor can they reflect the interrelations and complexity of the reference markets.

Exchange rate risk. Due to its commercial operations, the Group is exposed to fluctuations in the exchange rates for currencies in which some of its commercial transactions are denominated (particularly USD, GBP, CHF and Far East countries), against a cost structure that is concentrated principally in the eurozone. The TOD'S Group realises greater revenues than costs in all these currencies; therefore, changes in the exchange rate between the euro and the aforementioned currencies can impact the Group's results.

Moreover, due to the geographical composition of the Group structure, which is formed by subsidiaries with different currencies, the Group is exposed to exchange rate risk related to intercompany financial flows (mainly dividends, loans, transactions on share capital).

Finally, the Group is exposed to "translation risk". This risk stems from the fact that the assets and liabilities of consolidated companies whose functional currency is different from the euro can have different countervalues in euros according to changes in foreign exchange rates. The measured amount of this risk is recognised in the "translation reserve" in equity.

The Group monitors the changes in the exposure. No hedges of this risk existed at the reporting date. Governance of individual foreign currency operations by the Group's subsidiaries is highly simplified by the fact that they are wholly owned by the parent company.

The Group's risk management policy, in connection to the exchange rate risk on commercial transactions, aims to ensure that the average countervalue in euros of receipts on transactions denominated in foreign currencies for each collection (Spring/Summer and Fall/Winter) is equal to or greater than what would be obtained by applying the pre-set target exchange rates. The Group pursues these aims by entering into forward contracts for each individual currency to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency. These positions are not hedged for speculative or trading purposes, consistently with the strategic policies adopted for prudent management of cash flows. Consequently, the Group might forego opportunities to realise certain gains, but it avoids running the risks of speculation.

The Group defines its exchange risk *a priori* according to the budget for the reference period and then gradually hedges this risk upon acquisition of orders, in the amount according to which they correspond to budget forecasts.

The process of hedging exchange rate risk inside the Group is broken down into a series of activities that can be grouped into the following distinct phases:

- definition of operating limits;
- identification and quantification of exposure;
- implementation of hedges;
- monitoring of positions and alert procedures.

In connection with the exchange rate risk on financial intercompany transactions, the Group monitors the risk underlying outstanding liabilities (loans) and forecast liabilities (dividends and capital increases), in view of guaranteeing that no material operating and financial impact for the entities involved results from these transactions in relation to fluctuations in exchange rates. These goals are pursued by the Group through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects. These forward contracts are made to hedge the individual transactions, and not for speculation or trading. This is consistent with the strategic policies focused on prudent management of cash flows. The breakdown of forward currency contracts (for sale and purchase) made by the Group is illustrated in Note 15.

The balance sheet accounts denominated in foreign currency were identified for the sensitivity analysis. In order to determine the potential impact on final results, the potential effects of fluctuations in the exchange rate for the euro against the principal currencies to which the Group is exposed were analysed. The following table illustrates the sensitivity to reasonably likely changes in exchange rates on pre-tax profit (due to changes in the value of current assets and liabilities denominated in foreign currency for expected transactions) and Group equity (due to changes in the fair value of foreign exchange risk hedge instruments on forecast transactions):

Euro		Impact on pre-tax profit 5% writedown of the foreign currency		Impact on pre-tax profit 5% revaluation of the foreign currency	
Currency	Country	FY 2017	FY 2016	FY 2017	FY 2016
CAD	Canada	9,124.4	(20,955.3)	10,084.9	23,161.1
CHF	Switzerland	371.4	(1,604.1)	(410.5)	1,772.9
GBP	UK	120.8	10,802.5	(133.5)	(11,939.6)
HKD	Hong Kong	203,823.5	317,402.7	225,278.6	(350,813.5)
JPY	Japan	46,474.5	9,199.4	(51,366.6)	(10,167.7)
KRW	South Korea	479.1	(366.6)	(529.5)	405.2
RMB	China	(1,244,900.0)	(116,117.1)	1,375,942.1	128,339.9
SGD	Singapore	(35,538.3)	16,038.6	39,279.1	(17,726.8)
USD	USA	277,794.0	74,799.4	(307,035.5)	(82,673.0)
EUR	Europe	415,263.4	15,996.1	(458,975.3)	(17,680.0)
Other	n.a.	(494,560.9)	(238,359.1)	75,893.0	263,449.5
Total		**(821,548.0)**	**66,836.5**	**908,026.8**	**(73,872.0)**

euro 000's	Revaluation / Writedown foreign currency	Impact on pre-tax profit	Impact on Shareholders' equity
FY 2017	5%	(0.8)	(4,522.8)
	-5%	0.9	4,196.3

The impact on equity showed in the previous table is mainly related to the cash flow hedge reserve gross of tax effects.

The analysis did not include assets, liabilities and future commercial flows that were hedged, since fluctuations in exchange rates impact income in an amount equal to what is recognised in the fair value of adopted hedging instruments.

Interest rate risk. The TOD'S Group is exposed to interest rate fluctuations, limited to its variable-rate debt instruments. Interest rate risk is managed in conformity to long-established practice with the aim of cutting down the risk of interest rate volatility, at the same time pursuing the goal of reducing the financial costs involved to a minimum.

TOD'S S.p.A. has a syndicated loan signed with Mediobanca and Crédit Agricole, definitively drawn for 300 million euros, with variable interest rate equal to EURIBOR 3M + 55 basis points (the reduction from 80 basis points to 55 basis points occurred last November 2017). To hedge the risk of possible changes in the interest rates on the loan, two derivative contracts (interest rate swaps - IRSs), have been signed, for a notional amount equal to the amount drawn for the loan. These derivatives protect the Company from the risk of a generalised rise in interest rates, swapping the variable rate on the loan for a contractually fixed rate (a quarterly rate of 0.748%). Such transactions have been recognised in accordance with cash flow hedge methodology provided by IAS39.

In addition to the above mentioned syndicated loan, TOD'S S.p.A. entered into two loan agreements with BNL S.p.A. (BNP Paribas Group) and Intesa San Paolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the expiry date. Interests rates are variables and equal to the EURIBOR 3m + 0.42% and EURIBOR 3m +0.5% respectively (Note 21). Considered the current financial markets situation and the current EURIBOR reference rate, the Group doesn't believe necessary to put in place hedging derivatives for such loans. The financial market trend and the related benchmark interests rates are constantly monitored by the Group, and, in case there could be an increase of risks in connection with the above mentioned loans, the Group will put in place appropriate hedging instruments in accordance with the strengthened Group practice.

The sensitivity analysis carried out on interest rates has shown in addition that a hypothetically unfavourable change of 10% in short-term interest rates applicable to the adjustable rate financial liabilities existing at December 31st, 2017 would have a net pre-tax impact of about 11 thousand euros in additional expenses (FY 2016: 13 thousand euros).

Finally, the financial liability (Notes A2) issued by the subsidiary Holpaf B.V. (Note 21) is subject to a fixed rate of 3.239%.

6.1 Categories of measurement at fair value

In accordance with IFRS 7, the financial instruments carried at fair value have been classified according to a hierarchy of levels that reflects the materiality of the inputs used to estimate their fair value. The following levels have been defined:

Level 1 – quoted prices obtained on an active market for the measured assets or liabilities;

Level 2 – inputs other than the quoted prices indicated hereinabove, which are observable either directly (prices) or indirectly (derived from prices) on the market;

Level 3 – inputs that are not based on observable market data.

The tables below show the breakdown of financial assets and liabilities between each financial category and the fair value hierarchy level at December 31st, 2017 and 2016:

2017 euro 000's	Assets Loans and receivables at amortized cost	Available for sales	Financial assets at fair value	Total	Level 1	Level 2	Level 3	Total
Other non-current assets	16,136			16,136				
Total other non-current assets	**16,136**			**16,136**				
Trade receivables	107,471			107,471				
Derivative financial instruments			2,763	2,763		2,763		2,763
Bank	221,609			221,609				
Total other current assets	**329,080**		**2,763**	**331,843**		**2,763**		**2,763**

2017 euro 000's	Liabilities Financial liabilities at amortized cost	Financial liabilities at fair value	Total	Level 1	Level 2	Level 3	Total
Bank borrowings	147,617		147,617				
Other non-current liabilities	10,287		10,287				
Derivative financial instruments		1,197	1,197		1,197		1,197
Total other non-current liabilities	**157,904**	**1,197**	**159,101**		**1,197**		**1,197**
Trade payables	158,388		158,388				
Bank	64,654		64,654				
Derivative financial instruments		2,459	2,459		2,459		2,459
Other current liabilities	1,063		1,063				
Total other current liabilities	**224,105**	**2,459**	**226,564**		**2,459**		**2,459**

2016 euro 000's	Assets Loans and receivables at amortized cost	Available for sales	Financial assets at fair value	Total	Level 1	Level 2	Level 3	Total
Other non-current assets	18,472			18,472				
Total other non-current assets	**18,472**			**18,472**				
Trade receivables	118,142			118,142				
Derivative financial instruments			2,857	2,857		2,857		2,857
Bank	227,706			227,706				
Total other current assets	**345,848**		**2,857**	**348,705**		**2,857**		**2,857**

2016 euro 000's	Liabilities Financial liabilities at amortized cost	Financial liabilities at fair value	Total	Level 1	Level 2	Level 3	Total
Bank borrowings	197,139		197,139				
Other non-current liabilities	9,973		9,973				
Derivative financial instruments		2,687	2,687		2,687		2,687
Total other non-current liabilities	**207,112**	**2,687**	**209,799**		**2,687**		**2,687**
Trade payables	130,804		130,804				
Bank	65,948		65,948				
Derivative financial instruments		8,046	8,046		8,046		8,046
Other current liabilities	1,464		1,464				
Total other current liabilities	**198,216**	**8,046**	**206,262**		**8,046**		**8,046**

Note that during the year 2017 there have not been any transfers between fair value levels indicated by the IFRS 7.

In connection with the fair value of financial assets and liabilities measured at amortised cost, given their nature, does not differ significantly from their carrying amounts.

7. Intangible fixed assets

7.1 Intangible assets with undefined useful life. Assets with indefinite useful life amount to 565,934 thousand euros, and are constituted as follows:

euro 000's	12.31.17	12.31.16
Trademarks	553,649	553,649
Goodwill	12,285	12,232
Total	**565,934**	**565,881**

Trademarks. This item includes the values of the Group four own brands (TOD'S, HOGAN, FAY and ROGER VIVIER).

euro 000's	12.31.17	12.31.16
TOD'S	3,741	3,741
HOGAN	80,309	80,309
FAY	53,185	53,185
ROGER VIVIER	416,414	416,414
Total	**553,649**	**553,649**

Goodwill. They are related to acquisitions of controlled companies and they have been determined in accordance with the acquisition method (IFRS 3).

7.2 Key money and Other intangible assets with definite useful life. The following table details the movements of these assets in the current and previous fiscal year.

euro 000's		Other Intangible assets			
	Key money	Other trade marks	Software	Other assets	Total
Balance as of 01.01.16	**14,938**	**4,186**	**7,745**	**14,456**	**26,387**
Translation differences	(8)		1	4	5
Increases		568	3,804	567	4,939
Decreases				(216)	(216)
Impairment losses (Note 9)			(22)		(22)
Other changes	2,940				
Amortization for the period	(2,023)	(804)	(3,669)	(2,712)	(7,186)
Balance as of 12.31.16	**15,847**	**3,949**	**7,859**	**12,099**	**23,907**
Translation differences	3		(13)	(14)	(26)
Increases	1,885	475	2,687	1,144	4,306
Decreases				(1)	(1)
Impairment losses (Note 9)	(1,072)				
Other changes				36	36
Amortization for the period	(2,237)	(852)	(3,199)	(2,527)	(6,577)
Balance as of 12.31.17	**14,427**	**3,572**	**7,335**	**10,737**	**21,644**

Key money, represent the amounts paid for this purpose by the Group to take over certain leases of commercial spaces where some DOS operate. The increase for the period relates to the key money paid in connection with the acquisition of Buena Ltd., occurred on May 2017, related to the store located in London Sloane Street (Note 4). Impairment losses are related to the write off of a key money related to a store which has been relocated (Note 9).

The increase of Other trademarks relates to long-term charges with a defined useful life incurred to protect the brands owned by the Group which are classified as assets with an undefined useful life.

The increase of Software mainly relates to resources designated by the parent company for the development of IT systems.

The increase recorded in Other Assets is mainly due to long-term investments made for the network of corners, franchise stores and the development of the digital channel.

The item Other assets includes 7,098 thousand euros for the value of the intangible asset recognised in relation to the agreement made with the Ministry of Cultural Affairs ("Ministero per i Beni e le Attività Culturali") and the Special Archaeological Service of Rome ("Soprintendenza speciale per i beni archeologici di Roma"), with which the parent company has undertaken to finance the entire cost of restoration work on the Coliseum. The asset was formerly recognised in the balance sheet for an amount equal to the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work available at the moment of the initial recognition, and amortised over the useful life determined according to the provisions of the agreement. The accrual for amortisation allocable to the financial year is about 1.1 million euros.

8. Tangible fixed assets

At December 31st, 2017 the net residual value of Group's tangible fixed assets was a 200.9 million euros (FY 2016: 216.9 million euros).

euro 000's	Land and buildings	Plant and machin.	Equip.	Leasehold improv.	Others	Total
Balance as of 01.01.16	**110,928**	**13,206**	**14,258**	**45,573**	**42,538**	**226,504**
Translation differences	3,346	3	1	(44)	(245)	3,062
Increases	2,359	1,466	4,954	11,059	8,716	28,554
Decreases		(19)	(248)	(54)	(154)	(475)
Impairment losses (Note 9)			(134)	(3,835)	(440)	(4,409)
Other changes			3	124	478	605
Amortization for the period	(2,167)	(2,204)	(6,655)	(12,370)	(13,556)	(36,953)
Balance as of 12.31.16	**114,467**	**12,452**	**12,180**	**40,454**	**37,336**	**216,888**
Translation differences	(4,890)	4	(161)	(2,047)	(1,756)	(8,849)
Increases	2,638	3,099	4,818	8,899	10,981	30,435
Decreases	(14)	(18)	(123)	(124)	(481)	(759)
Impairment losses (Note 9)				(1,381)		(1,381)
Other changes						
Amortization for the period	(2,236)	(2,412)	(5,915)	(11,542)	(13,298)	(35,402)
Balance as of 12.31.17	**109,966**	**13,124**	**10,800**	**34,259**	**32,783**	**200,932**

Land and Buildings mainly include the real estate assets consisting of the Parent Company's operating headquarters and the building located in Omotesando in Tokyo, the location of the subsidiary TOD'S Japan's administrative offices and of the most important TOD'S flagship store in Japan. The increase in the value of Land and Buildings and Plant and machinery mainly include the investments done for the construction of the new plant located in Arquata del Tronto.
The increase in Equipment is due to the investments, made mainly by the parent company, in the framework of the normal processes of modernisation of industrial facilities and equipment (mainly lasts and moulds), and to the investments done for the enlargement of production capacity related to Albanian plant of the Group. The increase in Leasehold Improvements and Others mainly consist of the costs incurred for fitting out DOS, among which the first boutique TOD'S in Vienna (Austria) and Boston (USA), and for the renovation activities of the existing stores. Depreciation from continuing use of the fixed assets during the year amount to 35.4

million euros, while write-downs for impairment recognized through profit and loss amount to 1.4 million euros (Note 9).

9. Impairment losses

The recoverability of the residual value of intangible assets with an indefinite useful life (brands and goodwill) was determined to ensure that assets with a value higher than the recoverable value were not recognised on the financial statements, which refers to their "value in use". The criterion used to determine "value in use" is based on the provisions of IAS 36, and is based on the current value of expected future cash flows (Discounted cash-flow analysis - DCF), which is presumed to derive from the continual use and disposal of an asset at the end of its useful life, discounted at a net discounting rate that reflects current market rates for borrowing money and the specific risk associated with the individual cash generating unit.

In application of the method prescribed by IAS 36, the TOD'S Group has identified the cash generating units (CGU) that represent the smallest, identifiable group of assets that can generate cash flows and which are fully independent on the consolidated financial statements. The organisational structure and type of business was considered in determining the CGU. The TOD'S Group subsequently identified only one CGU, at a Group level, and it has been tested the net invested capital of the Group. This approach is based on the unified view of the business (also see Note 5 Segment reporting), organised as a matrix structure, which may be alternatively broken down by brand, product, channel and region, according to the different functions/activities on the value chain, where the transverse nature of many central and peripheral service activities (especially the supply chain, sales and distribution, finance and administration, legal, human resources and information technology), ensure maximisation of the levels of profitability. The recoverability of the amounts recognised on the financial statements was verified by comparing the net book value of the net invested capital with the recoverable value (value in use). The value in use is represented by the discounted value of future cash flows that are expected from continuous use of the assets associated with the cash generating unit and by the terminal value attributable to them.

The discounted cash flow analysis was carried out by using the FY 2018 budget as its basis. That budget was prepared and approved by the Board of Directors of the parent company TOD'S S.p.A. on the assumption that the Group would be a going concern for the foreseeable future. The Board of Directors first assessed the methods and assumptions used in developing the model. In particular:

i. medium-term budget data are forecast over a time horizon of four additional years using a 5% mean sales growth rate, a constant EBITDA margin and a constant tax rate, equal to 30%.

Assumptions regarding the medium-term sales growth rate are made on the basis of reasonable growth estimates which also take into account the growth trends in the luxury sector as a whole in the foreseeable future;

ii. The terminal value was determined as perpetuity, using, for future forecasts, a prudential long term growth rate in line with the macro-economics estimates performed by the International Monetary Fund .

iii. To determine the "value in use," a WACC, net of taxes, of 8.50% was used (the WACC rate used at December 31st, 2016 was 8.30%), determined by referring to the discounting rates used by a series of international analysts in financial reports on the Group, including a specific beta attributable to it.

An expected overall cash flow figure far higher than the total amount of net invested capital (cover) emerged from the analyses of the recoverability of the Group's intangible assets with an indefinite useful life (of which 553.6 million euros are made up of the owned trademarks and 12.2 million euros are made up of goodwill from business combination).

The sensitivity analysis performed on the impairment test in accordance with IAS 36, in order to reveal the effects produced on the "value in use" by a reasonable change in the basic assumptions (WACC, growth rates, EBITDA margin) and determination of the terminal value (disposal value of Group assets), did not reveal an appreciable impact on determination of the "value in use" and cover. Given the significant value assumed by the cover, it would be necessary to make unrealistic base assumptions to render the "value in use" equal to the book value of Group assets (the breakeven hypothesis).

Furthermore, in accordance with IAS 36, an estimate has been made of the recoverable value of each Company-owned brand, intangible assets with an indefinite useful life. The recoverable value is calculated by using, in principle, a market valuation approach, consisting of the application of the royalties method and using the same assumptions as those stated above in terms of growth rates, tax rate, WACC and terminal value. As regards the ROGER VIVIER brand, the royalties method has been based, for obvious reasons of uniformity and consistency with the estimation of the value to be attributed to the abovementioned balance sheet item upon acquisition, on income evaluation approaches; these have the objective of quantifying the contribution that the brand gives to the overall business profitability, on the basis of the business plan prepared for the foreseeable future, by discounting the income that can be directly or indirectly associated with the brand for a specific period of time. From the analysis carried out no impairment losses arose, as the net book value of brands fell within the range of values set for the recoverable value.

Finally, the Group conducted an analysis to assess the recoverability of the tangible and intangible fixed assets attributable to the individual directly operated stores (DOS). Impairment indicators emerged from this analysis for some DOS whose assets were therefore written down by a total of 2.5 million euros, of which 1.1 million euros related to key money, as the recovery of their value by means of future cash flows is not reasonably foreseeable as matters stand.

10. Investment property

This account refers to a property owned by the Group as a real estate investment and leased to third parties.

euro 000's	
Historic cost	115
Accumulated depreciation	(89)
Balance as of 01.01.17	**25**
Increases	
Decreases	
Depreciation for the period	(3)
Balance as of 12.31.17	**22**

No changes in the fair value of this investment, about 250 thousand euros, have been recognised since this previous financial year. This estimate is based on the market prices for similar properties in terms of location and condition.

11. Deferred tax assets and liabilities

At the reporting date, recognition of the effects of deferred tax assets, determined on the basis of temporary differences between the carrying amount of assets/liabilities and its tax base, lead to the following tax assets and liabilities:

euro 000's	12.31.17	12.31.16	Change
Deferred tax assets	50,411	58,885	(8,474)
Deferred tax liabilities	(37,968)	(32,739)	(5,229)
Net Balance	**12,442**	**26,146**	**(13,704)**

When determining future tax impact, reference was made to the presumed percentage weight of the taxes that will be imposed on income in the years when those taxes will be charged, according to current tax laws in the various countries involved and any changes in tax rates following currently known tax reforms, and that will be applicable starting next year. Following is reported the composition of the amount of deferred tax assets and liabilities at year end, offset if applicable, highlighting items that mainly contributed to its determination:

euro 000's	12.31.17		12.31.16	
	Asset	Liabilities	Asset	Liabilities
Property plant and Equipment	1,498	4,676	2,865	5,060
Intangible fixed assets	680	45,741	2,136	37,718
Inventory	27,614	(12,071)	30,688	(9,536)
Derivative financial instruments	1,045	38	133	(703)
Cost deductible over several years	595	(418)	634	17
Reserve for employees	1,258	161	1,254	(55)
Provision for risks	72	(1,051)	19	(366)
Other	160	892	133	602
Fiscal losses to carry forward	17,489		21,022	
Total	**50,411**	**37,968**	**58,885**	**32,739**

Deferred tax assets, recognised by certain subsidiaries on fiscal losses that can be carried forward pursuant to local tax laws, and not yet used by the Group at December 31st, 2017, totalled 17.5 million euros (FY 2016: 21 million euros). New deferred tax assets for 5.3 million euros were recognised in the 2017 financial statements for fiscal losses suffered in the current year that can be carried forward, while, during the year, deferred tax assets for 3.2 million euros have been used on previous years fiscal losses. Moreover, during the year, 3.7 million euros of deferred tax assets related to previous years fiscal losses have been written off as a consequence of the fact that the subsidiaries who suffered such losses consider no more probable the recoverability of such fiscal losses within the related expiring date. Not recognised deferred tax assets on previous years fiscal losses amount to 11.6 million euros, as a consequence of the fact that it is not probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

12. Other non-current assets

Other non-current assets mainly relate to security deposits paid to third parties by Group subsidiaries in connection with operating leases.

13. Inventories

They totalled 312,263 thousand euros at December 31st, 2017, and include:

euro 000's	12.31.17	12.31.16	Change
Raw materials	63,460	54,157	9,303
Semi-finished products	10,636	9,384	1,252
Finished products	291,873	281,227	10,646
Write-down	(53,706)	(52,877)	(828)
Total	**312,263**	**291,892**	**20,372**

The allowance for inventory write-downs reasonably reflects the technical and stylistic obsolescence of the Group's inventories at December 31st, 2017.

euro 000's	12.31.17	12.31.16
Opening balance	**52,877**	**22,333**
Increase	6,948	32,130
Utilization	(6,030)	(1,586)
Reversal		
Exchange rate effects	(89)	
Closing balance	**53,706**	**52,877**

14. Trade receivables and other current assets

14.1 Trade receivables: they represent Group's exposure in consequence of its wholesale distribution activity.

euro 000's	12.31.17	12.31.16	Change
Trade receivables	114,017	123,915	(9,898)
Allowances for doubtful accounts	(6,546)	(5,773)	(773)
Net trade receivables	**107,471**	**118,142**	**(10,672)**

The allowances for doubtful accounts represent the reasonable estimate of impairment due to the specific and generic risk of not being able to collect the trade receivables recognised on the financial statements. The amount accrued for FY 2017 totalled 1,209 thousand euros. The following schedule shows the changes during the year in the allowances for doubtful accounts:

euro 000's	12.31.17	12.31.16
Opening balance	**5,773**	**5,112**
Increases	1,209	1,047
Used during year	(436)	(386)
Closing balance	**6,546**	**5,773**

14.2 Tax receivables: these total 29,805 thousand euros (FY 2016: 28,646 thousand euros) and are mainly comprised of receivables for income taxes and value added tax claimed by the Group from the tax authorities of the countries where it operates.

14.3 Other current assets:

euro 000's	12.31.17	12.31.16	Change
Deferred costs	8,402	8,802	(400)
Others	30,304	27,833	2,471
Total other current assets	**38,706**	**36,635**	**2,071**

The item "Others" mainly relates to receivables versus manufacturers for the raw materials sold in connection with manufacturing activities, receivables for credit cards and other receivables to be collected next year.

15. Derivative financial instruments

The TOD'S Group, characterised by its major presence on international markets, is exposed to both exchange rate risk, mainly for revenues denominated in currencies other than the euro (see Note 6), and interest rate risk limited to its variable-rate debt instruments. In order to realise the objectives envisaged by the Risk Management policy, the Group enters in derivative contracts with primary banks for the hedging of the above mentioned risks; in particular, in connection with exchange rate risk, the Group entered in sell and/or buy foreign currency contracts (forward), while for the hedging of a variable interest rate risk, the Group entered in interest rate swaps agreements. Moreover, due to the geographical composition of the Group structure, which is formed by subsidiaries with different currencies, the Group is exposed to exchange rate risk related to intercompany financial flows (Note 6). These risks are managed by the Group through a monitoring activity of the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects. Forward contracts have been put in place, for each individual currency, to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency.

At the closing date of the financial statements, the notional amount of the currency forward agreements (sale and purchase) entered into by the Group are summarized as follows:

Currency 000's	Sales		Purchases	
	Notional in currency	Notional in euro	Notional in currency	Notional in euro
US dollar	28,030	23,372		
HK dollar	550,000	58,685		
Japanese yen	970,000	7,185	3,770,000	27,924
British pound	26,500	29,868		
Swiss franc	7,620	6,512		
Chinese renmimbi	350,000	44,846		
Singapore dollar	2,780	1,735		
Euro	1,140	1,140	10,170	10,170
Canadian dollar	5,150	3,424		
Australian dollar	1,510	984		
Total		**177,752**		**38,094**

All derivative contracts will expire during the year 2018.

Below is summarized the composition of the outstanding derivatives at December 31st, 2017 and 2016, with information related to carrying amounts, current and non-current, in connection with fair value and cash flow hedge reserve, the latter presented net of its related tax effects:

euro 000's	12.31.17			12.31.16		
	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
Non-current						
Interest rate swaps - cash flow hedges		1,197	(909)		2,687	(2,042)
Forward foreign exchange contracts - cash flow hedges						
Forward foreign exchange contracts - fair value hedges						
Total non-current		**1,197**	**(909)**		**2,687**	**(2,042)**
Current						
Interest rate swaps - cash flow hedges		1,467	(879)		1,906	(1,135)
Forward foreign exchange contracts - cash flow hedges	1,357	776	3,602	1,726	3,693	4,241
Forward foreign exchange contracts - fair value hedges	1,406	216		1,131	2,447	
Total current	**2,763**	**2,459**	**2,723**	**2,857**	**8,046**	**3,106**
Total	**2,763**	**3,656**	**1,814**	**2,857**	**10,733**	**1,064**

Cash flow hedge reserve includes even some intercompany transactions, positive for 859 thousand euros net of tax effect (118 thousand euros in 2016), for which derivatives have been expired at December 31st, 2017, that will be transferred to the income statement when sales versus third customers or when forecast transactions will be realized.

Moreover, the transfer of the effect of the hedging transactions to the income statement was equal to 5,371 thousand euros, of which 5,440 thousand euros were represented as an increase of revenues and 69 thousand euros as an increase of costs.
The overall effect recognised in the income statement in connection with derivatives for the hedging of interest rate risk amounted to 1,840 thousand euros, totally represented in the financial expenses.

16. Cash and cash equivalents

Cash and cash equivalents are related to cash and bank deposits for 221,609 million euros (227,706 million euros at December 31st, 2016). For further information see the statement of cash flow.

17. Assets held for sale

The Group did not have any held for sale assets at December 31st, 2017.

18. Equity

18.1 Share capital. At December 31st, 2017, the Parent company share capital totalled 66,187,078 euros (66,187,078 euros at December 31st, 2016), and was divided into 33,093,539 shares having a par value of 2 euros each, fully subscribed and paid in. All shares have equal voting rights at the general meeting and participation in profits.
At December 31st, 2017 Mr. Diego Della Valle, president of the Board of Directors, hold, directly and indirectly, 60.663% of TOD'S S.p.A. share capital. At December 31st, 2017 the Group did not own treasury shares in the parent TOD'S S.p.A., and it did not execute any transactions on those shares during the year.

18.2 Capital reserves. Capital reserves are exclusively related to share premium reserve, amounting to 416,588 thousand of euros unchanged in respect to the previous year.

18.3 Hedging and translation reserves. The following schedule illustrates the changes occurred in 2017 for the Group:

euro 000's	Translation Reserve	Hedging Reserve	Total
Balance as of 01.01.16	**15,976**	**(3,346)**	**12,630**
Increase in fair value of hedging derivatives		805	805
Exchange differences	8,465	38	8,503
Transfer to P&L Account of hedging derivatives		3,567	3,567
Others			
Balance as of 01.01.17	**24,441**	**1,064**	**25,505**
Increase in fair value of hedging derivatives		3,581	3,581
Exchange differences	(19,895)	(65)	(19,960)
Transfer to P&L Account of hedging derivatives		(2,766)	(2,766)
Others			
Balance as of 12.31.17	**4,546**	**1,814**	**6,360**

For comments related to the changes of hedging reserve please see Note 15.

18.4 Other reserves and profit of the period. These reserves include the equity reserves of the parent company TOD'S S.p.A., the difference between the shareholders' equity of the subsidiaries, and the carrying values of the equity investments, as well as the effects of consolidation adjustments on Group equity.

euro 000's	Other reserves	Profit (loss) of the period	Total
Balance as of 01.01.16	**481,392**	**92,735**	**574,128**
Allocation of 2015 result	26,548	(26,548)	
Dividends		(66,187)	(66,187)
Profit for the period		86,292	86,292
Other changes	(15,300)		(15,300)
Balance as of 01.01.17	**492,640**	**86,292**	**578,932**
Allocation of 2016 result	30,033	(30,033)	
Dividends		(56,259)	(56,259)
Profit for the period		71,007	71,007
Other changes	3,457		3,457
Balance as of 12.31.17	**526,130**	**71,007**	**597,137**

Other changes for the year 2017 are mainly related to both the use of the specific reserve for promoting territorial solidarity projects, for 0.9 million euros and to exchange gains from net investment in foreign operations for 4.3 million euros.

18.5 Dividends. In execution of a resolution by the Shareholders' Meeting of April 21st, 2017, the parent company TOD'S S.p.A. paid the shareholders dividends in May for the net income realised in 2016. The aggregate amount of the dividends paid is 56,259,016.30 euros, at the rate of 1.7 euros for each of the 33,093,539 shares representing the share capital at the coupon detachment date (May 23rd, 2017).

The Board of Directors of the parent company TOD'S S.p.A. has proposed that the net profit for 2017 be distributed with payment of a dividend of 1.4 euros per share. The dividend is subject to approval by the annual Shareholders' Meeting, and was not included among the liabilities reported on this balance sheet. The proposed dividend, totalling 46,330,954.60 euros on the basis of the currently outstanding shares, is payable to all shareholders entered on the register of shareholders at the coupon detachment date.

19. Contingent and potential liabilities and assets

19.1 Provisions for risks. They include the estimate of liabilities, with uncertain maturity date or amount, on which the Group might incur in case of a legal or constructive obligation in connection with a past event. The figure mainly include provisions related to both legal and tax lawsuits, risks and costs for employees and reinstatement costs.

euro 000's	12.31.17	12.31.16
Provisions for risks - non current		
Opening balance	**4,517**	**3,530**
Increase	1,099	1,091
Utilization	(87)	(149)
Reversal		(4)
Exchange rate effects	(143)	48
Closing balance	**5,385**	**4,517**
Provisions for risks - current		
Opening balance	**1,543**	**1,955**
Increase	4,056	799
Utilization	(878)	(1,211)
Reversal	(95)	
Exchange rate effects		
Closing balance	**4,626**	**1,543**

19.2 Contingent liabilities and other commitments.

i. Guarantees granted to third parties. At December 31st, 2017 the Group had provided guarantees amounting to 5,589 thousand euros (compared to 5,424 thousand euros in 2016) against the contract commitments undertaken by some Group companies. The guarantees mainly consist of a surety of 3,629 thousand euros (same amounts in 2016) issued against the commitment to finance the Colosseum restoration works, the financial liability of which has been recognised in full in the accounts (Notes 7 and 22).

ii. Guarantees received from third parties. Guarantees received by the TOD'S Group from banks as security for contractual commitments totalled 15,657 thousand euros (15,494 thousand euros in 2016).

iii. Mortgages. Group real estate has been encumbered by the following mortgages:

Tokyo building – As collateral for two bonds issued by the subsidiary Holpaf B.V. (Note 21), a first mortgage in favour of Intesa San Paolo for JPY 1,000 million (7.4 million euros), and a first mortgage in favour of Société Européenne de Banque for JPY 5,652.8 million (41.9 million euros), both as collateral for the principal and all expenses resulting from the loan agreement.

iv. Other guarantees. As additional security for repayment of the bonds indicated at sub-indent iii. hereinabove, the parent company TOD'S S.p.A. (when taking over the contractual obligations assumed by the previous guarantor, Holpaf B.V., vis-à-vis the subscribing banks), issued the following additional guarantees:

a) *Property Purchase Option*: a put option granted to Intesa San Paolo Bank Ireland PLC on the Omotesando property, which may be exercised only if Holpaf B.V. defaults during the term of the bonds and the creditor demands payment of the mortgage. In this scenario, TOD'S S.p.A. must purchase the property at a specific price that varies over the term of the option (decreasing price, equal to the amount of the residual debt of the two bonds not repaid by Holpaf B.V. at the time of default).

b) *Earthquake Indemnity Letter*; TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property in an earthquake;

c) *All Risks Indemnity Letter*; TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo and Société Européenne de Banque even in the event of damage or destruction of the property due to any event;

d) Pledge on the fire insurance policy; in the event of loss due to building fire, any reimbursement by the insurance company constitutes a pledge in guarantee of the bonds whose value has not yet been repaid to Intesa Sanpaolo Bank Ireland PLC and Société Européenne de Banque.

At December 31st 2017, the residual face value of the principal for the bond amounted to JPY 1,602 million euros (11.9 million euros).

19.3 Lease agreements. The leases entered into by the Group are for rental of spaces used as offices, production plants, and DOS. At the reporting date, the minimum lease payments still owed by the Group under current agreements were as follows:

euro mn	2017	2016
2017		99.5
2018	92.8	84.3
2019	75.5	63.0
2020	62.3	53.6
2021	50.1	43.2
2022	41.0	
Over 5 years	137.2	116.6
Total	**458.9**	**460.2**

Operating lease instalments, included in the Costs of use of third party assets, totalled 112.8 million euros in the year 2017, including contingent rent.

20. Employee Benefits

20.1 Defined contribution plans. The Group has a defined contribution retirement plan (employee severance indemnities – TFR) in favor of employees at Group's Italian companies with more than 50 employees (see the following section in this regard) and the Japanese and Korean subsidiaries. At December 31st, 2017, the liability accrued *vis-à-vis* employees was 3,808 thousand euros (December 31st, 2017: 3,467 thousand euros), and relating only to the four Asian companies, since the amounts accrued in favour of Italian employees have all been transferred to funds outside the Group. The amount charged to profit and loss for the period totals 1,079 thousand euros.

20.2 Defined benefit plans. Following the statutory amendments introduced beginning January 1st, 2007, employee severance indemnities, a deferred payment plan in favor of all employees of the Group's Italian companies, were classified as a defined benefits plan (IAS 19) only for firms with less than 50 employees, for which the Group's obligation is not related with payment of the contributions accrued on the paid compensation, but extends until the end of the employment relationship, or, for companies with more than 50 employees, for the liability accrued until 2007[13]. For these types of plans, the principle requires that the accrued amount be projected

[13] The statutory amendment envisaged that for firms with more than 50 employees, the employee severance indemnities accrued from 1st January 2007 had to be allocated to supplemental retirement plans (pension funds) or, alternatively, to a Treasury Fund set up at the INPS (Italian National Social Security Institute). Since all obligations of firms towards their employees ceased starting on 1st January 2007, all accrued employee severance

into the future in order to determine the amount to be paid upon termination of the employment relationship, with an actuarial assessment that accounts for the rate of rotation of employees, expected evolution of compensation, and other factors.

The main actuarial assumptions used for the valuation are summarized below:

- Discounting rate: 1.3%

It is related to the average yield curve from IBOXX Eurozone Corporates AA of December 2017.

- Inflation rate: 1.50%;
- TFR incremental rate: 2.625%.

The table below shows the variation of the liability occurred in 2017:

euro 000's	Year 2017	Year 2016
Opening balance	**9,329**	**9,230**
Service costs	113	119
Interest costs	124	190
Benefits paid	(556)	(516)
Actuarial (gains)/losses	4	307
Other		
Closing balance	**9,014**	**9,329**

Employee benefits include even other long term employee benefits.

21. Financial liabilities

The Group's financial liabilities at December 31st, 2017 are broken down as follows:

euro 000's	12.31.17	12.31.16	Change
Current account overdraft	15,910	15,714	(196)
Financing and other financial liabilities- short term	48,743	50,234	1,491
Total financial liabilities short-term	**64,654**	**65,948**	**1,294**
Financing and other financial liabilities - long term	147,617	197,139	49,523
Total financial liabilities	**212,270**	**263,087**	**50,817**
Total Financing - and other financial liabilities (short/long term)	196,360	247,373	51,013

Financing and other financial liabilities. At December 31st, 2017 financing and other financial liabilities were represented by the following medium-long term position:

indemnities are covered by the rules governing defined contribution plans for the liability accrued from such date.

Currency 000's Type	Counterpart	Currency	Maturity	Res. Debt in currency	Res. Debt in Euro
Medium and long term bank pool loan	Mediobanca - Crédit Agricole	Eur	2021	149,372	149,372
Medium and long term loan	Banca Nazionale del lavoro S.p.A.	Eur	2019	9,381	9,381
Medium and long term loan	Intesa SanPaolo S.p.A.	Eur	2019	24,994	24,994
Notes A-2	Société Européenne de Banque	Jpy	2021	1,602,126	11,867
Total financing					**195,614**
Other financial liabilities		Inr	n.a.	57,139	746
Total financing and other financial liabilities					**196,360**

The medium and long term bank pool loan is related to the financing agreement signed on July 2014 by TOD'S S.p.A. and Mediobanca/Crédit Agricole. Such loan has a variable interest rate equal to EURIBOR 3M + 55 basis points (the reduction from 80 basis points to 55 basis points occurred last November 2017) which was hedged with two derivative contracts (interest rate swaps - IRSs) for the same notional amount and duration. The duration of such loan is 7 years from the signing date and it will be refunded quarterly.

The medium and long term loans are related to two loan agreements signed in 2015 between the parent company TOD'S S.p.A. and BNL S.p.A. (BNP Paribas Group) and Intesa San Paolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the expiry date. Interests rates are variables and equal to the EURIBOR 3m +0.42% and EURIBOR 3m +0.5% respectively.

These loans contains, among others, specific financial covenants; in particular, it is requested to respect the following parameters computed at a Group level:

Bank	Financial covenants	Limit at 31st December
Mediobanca/Crédit Agricole	Net financial liabilities/EBITDA	≤ 3.5
Banca Nazionale del lavoro S.p.A.	Net financial liabilities/EBITDA	≤ 3.5
Intesa SanPaolo S.p.A.	Net financial liabilities/EBITDA	≤ 3

The parameters indicated above are constantly monitored by the Group, and all financial covenants are fulfilled at December 31st, 2017.

The financial liabilities indicated as Notes A-2 represent an amortised, non-convertible fixed-rate (3.239%) bond denominated in JPY, issued in 2006 by the subsidiary Holpaf B.V. to refinance the debt assumed for purchase of the land and construction of the building in Omotesando. Note that the bond related to Notes A1 have been fully reimbursed with the final payment done on August 2017. The debt referred to Notes A-2 includes the residual debt for principal amount of 11,564 thousand euros, the interest accrued for the year for 143 thousand euros and the effect of fair value measurement upon initial recognition for 160 thousand euros which is measured at amortized cost.

For an analysis of the guarantees securing the bond, please see the section Provisions, contingent liabilities and assets (Note 19).

The following table illustrates the repayment schedule for the aggregate amount of loans, including the accrual for interests at the reporting date.

euro 000's	Medium and long term loan (BNL)	Medium and long term loan (Intesa)	Medium and long term pool loan (Mediobanca/Credit Agricole)	Notes A-2	Total
2018	6,250		40,000	2,363	48,613
2019	3,125	25,000	40,000	2,441	70,566
2020			40,000	2,520	42,520
2021			30,000	4,241	34,241
2022					
Over 5 years					
Total	**9,375**	**25,000**	**150,000**	**11,564**	**195,939**
Accruals and amortized cost	6	(6)	(628)	303	(325)
Total	**9,381**	**24,994**	**149,372**	**11,867**	**195,614**

The breakdown by currency of the balance of total financial liabilities (bank overdrafts and financing) at the reporting date is as follows:

Financial liabilities by currency		12.31.17
Currency 000's	Local Currency	Euro
Jpy	2,135,255	15,816
Eur	94	94
Inr	62	1
Total bank overdrafts		**15,910**
Jpy	1,602,126	11,867
Eur	183,747	183,747
Inr	57,139	746
Total financing and financial liabilities		**196,360**
Total financial liabilities		**212,270**

Financial liabilities by currency		12.31.16
Currency 000's	Local Currency	Euro
Jpy	1,939,040	15,714
Total bank overdrafts		**15,714**
Jpy	2,069,721	16,772
Eur	229,901	229,901
Inr	50,122	700
Total financing and financial liabilities		**247,373**
Total financial liabilities		**263,087**

For interest rate sensitivity analysis (IFRS 7), and the disclosure for the 3 further financing agreements related to credit lines available for the Group but not used yet at December 31st, 2017 see Note 6.

22. Other non-current liabilities

The balance for this item, 15,795 thousand euros, refers mainly to the liability recognised in relation to the agreement made for financing of restoration work on the Coliseum (Note 7) for 10,287 million euros (9,973 million euros at December 31st, 2016). This liability was recognised at the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work.

23. Trade payables and other current liabilities

euro 000's	12.31. 17	12.31. 16	Change
Trade payables	158,388	130,804	27,584
Tax payables	7,932	8,241	(309)
Other liabilities			
Payables due to employees	11,730	11,093	636
Social security institutions	6,844	6,999	(155)
Other	19,632	17,766	1,865
Total other liabilities	**38,205**	**35,859**	**2,347**

The increase of trade payables is due to the normal business trend.

The payables to employees consist of amounts accrued in favour of employees (including the portion of unused holiday leave) and not paid at the reporting date.

"Other" mainly includes advances from customers, the current portion of the returns estimates at the end of the year, deferred revenues and other current liabilities.

24. Revenues

Revenues of the Group during the year are 963,3 million euros (1,004 million euros in 2016), decreased for 4.1% in respect to the previous year.

For further details related to revenues see the comments provided in the report on operations.

The item "Other income" amounts to 19.5 million euros (36 million euros in 2016) and it mainly includes active royalties, income from property management and insurance reimbursements.

25. Personnel costs

The personnel costs incurred by the Group in FY 2017 as compared with those for FY 2016 are illustrated as follows:

euro 000's				% on sales	
	Year 2017	Year 2016	Change	2017	2016
Wages and salaries	145,251	143,787	1,464	15.1	14.3
Social security contributions	40,347	36,566	3,781	4.2	3.6
Employee sev. Indem. (service cost)	5,941	5,855	86	0.6	0.6
Total	**191,540**	**186,208**	**5,331**	**19.9**	**18.5**

The following table illustrates the breakdown of Group's employees by category:

	12.31.17	12.31.16	Average 17	Average 16
Executives	52	49	49	49
White-collar Employees	3,202	3,222	3,198	3,254
Blue-collar Employees	1,373	1,214	1,325	1,211
Total	**4,627**	**4,485**	**4,572**	**4,514**

26. Financial income and expenses

The breakdown of financial income and expenses in fiscal 2017 is as follows:

euro 000's	Year 17	Year 16	Change
Income			
Interest income on current account	546	958	(412)
Foreign exchange gains	16,650	18,929	(2,279)
Other	146	298	(152)
Total income	**17,341**	**20,184**	**(2,843)**
Expenses			
Interest on medium-long term financing	(1,557)	(2,579)	1,021
Interest on short term borrowings	(135)	(145)	10
Foreign exchange losses	(21,953)	(24,282)	2,329
Other	(2,896)	(6,573)	3,678
Total expenses	**(26,541)**	**(33,579)**	**7,038**
Total net income and expenses	**(9,199)**	**(13,395)**	**4,195**

27. Income or losses from equity investments

The figure mainly includes the negative result from the sales of TOD'S Brasil Ltda equity investment (Note 4).

28. Income taxes

Tax expenses allocable to FY 2017, including deferred taxes, totalled 32.5 million euros, and are broken down into current and deferred taxes as follows:

euro 000's	Year 17	Year 16
Current taxes	23,086	30,618
Deferred taxes	9,449	(1,420)
Total	**32,535**	**29,198**
Tax rate	(31.9%)	(25.4%)

The parent company's theoretical tax rate for FY 2017 was 24%.

The following schedule reconciles theoretical taxes, calculated by using the theoretical tax rate of the parent company, and the taxes actually charged to income:

euro mn	Taxes	Rate %
Theoretical income taxes at the rate of parent company	**24.5**	**24.0**
IRAP effect	3.9	3.9
Previous year taxes	4.9	4.8
Permanent differences	2.3	2.3
Patent box tax effect	(3.2)	(3.2)
Effect connected with the different rates of the foreign subsidiaries	0.2	0.2
Effective income taxes	**32.5**	**31.9**

Previous year taxes mainly include the negative impact on deferred tax assets of the US tax reform, for 1.5 million euros, and the prudent write off, for 3.6 million euros, of deferred tax assets on fiscal losses, previously recognized by some Group subsidiaries. Previous year tax rate had moreover benefited from the recognition of the economic contribution deriving from the so-called "patent box" as it relates to two fiscal years (2015 and 2016).

29. Earnings per share

The calculation of base and diluted earnings per share is based on the following:

i. Reference Profit

euro 000's For continuing and discontinued operations	Year 17	Year 16
Profit used to determine basic earning per share	71,007	86,292
Dilution effects		
Profit used to determine diluted earning per share	**71,007**	**86,292**

euro 000's For continuing operations	Year 17	Year 16
Profit for the year	71,007	86,292
Income (Loss) from discontinued operations		
Profit used to determine basic earning per share	**71,007**	**86,292**
Dilution effects		
Profit used to determine diluted earning per share	**71,007**	**86,292**

In both fiscal 2017 and 2016, there were no dilutions of net consolidated earnings, partly as a result of activities that were discontinued during the periods in question.

ii. Reference number of shares

	Year 17	Year 16
Weighted average number of shares to determine basic earning per share	33,093,539	32,916,587
Share Options		
Weighted average number of shares to determine diluted earning per share	33,093,539	32,916,587

iii. Base earnings per share. Calculation of the base earning per share for fiscal year 2017 is based on the net profit attributable to holders of ordinary shares of the parent company TOD'S S.p.A., totalling 71,007 thousand euros (86,292 thousand euros in 2016), and on the average number of ordinary shares outstanding during the same period, totalling 33,093,539 (32,916,587 in 2016).

iv. Diluted earnings per share. Calculation of the diluted earnings per share for the period January-December 2017 coincides with calculation of earnings per share, due to the fact that there are no items which produce dilution effects.

30. Transaction with related parties

The Group's related parties transactions were executed in compliance with the procedural sequence and implementing procedures set out in the Related Parties Transactions Procedure approved by the TOD'S S.p.A. Board of Directors in implementation of the Related Parties Regulation adopted by CONSOB with Resolution no. 17221 of March 12th 2010, as subsequently amended. In accordance with market best practices, significant related party transactions are subject to an in-depth review involving, inter alia:
(i) complete, prompt transmission of material information to the delegated Board of Directors committees (the Control and Risk Committee and the Independent Directors Committee, each within the ambit of their delegated responsibilities, where the majority or all members of these

committees are independent directors), who in the performance of their functions also avail themselves of the assistance of independent experts;

(ii) the issuance of an opinion (either binding or non-binding, as applicable) before approval of the transaction by the Board of Directors (or, if appropriate, by the body delegated to resolve on the transaction). All transactions – which are connected with the normal operations of TOD'S Group companies – were executed solely on behalf of the Group by applying contractual conditions consistent with those that can theoretically be obtained on an arm's length basis.

Most significant transactions concluded during the period

On June 29th, 2017 the strategic partnership agreement in place with Italiantouch S.r.l., a company controlled by Directors Diego Della Valle and Andrea Della Valle and owned by the former, was renewed for five additional years for the develoment of the Group's e-commerce channel. The agreement concerns the sales of products under all four brands owned by the Group, through the e-commerce platform of the partner, and provides for the development of already esisting markets under the previous agreement and the implementation of the channel in new geographical areas.

Related party transactions at December 31st, 2017

Further to the information quoted above, TOD'S Group continued to maintain a series of contractual relationship with related parties (directors/controlling or significant shareholders) in 2017. The principal object of the transactions of the year was the sale of products and lease of sales spaces, show rooms and offices.

i. **Commercial transactions with related parties – Revenues**

euro 000's	Sales of products	Rendering of services	Royalties	Operating lease	Other operations
Year 2017					
Parent Company (*)	13,263			5	
Directors					
Exec. with strat. respons.					
Total	**13,263**	**-**	**-**	**5**	**-**
Year 2016					
Parent Company (*)	11,051	4		5	
Directors					
Exec. with strat. respons.					
Total	**11,051**	**4**	**-**	**5**	**-**

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

ii. Commercial transactions with related parties – Costs

euro 000's	Costs of products	Rendering of services	Royalties	Operating lease	Other operations
Year 2017					
Parent Company (*)	275	292		4,529	254
Directors					
Exec. with strat. respons.					
Total	**275**	**292**	**-**	**4,529**	**254**
Year 2016					
Parent Company (*)	272	447		4,497	194
Directors					
Exec. with strat. respons.					
Total	**272**	**447**	**-**	**4,497**	**194**

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

iii. Commercial transactions with related parties – Receivables and payables

Receivables and payables euro 000's	12.31.17 Receivables	12.31.17 Payables	12.31.16 Receivables	12.31.16 Payables
Parent Company (*)	2,882	564	2,915	252
Directors				
Exec. with strat. respons.				
Total	**2,882**	**564**	**2,915**	**252**

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

Due to the fact that the above mentioned amounts are not significant, the disclosure hasn't been provided separately in the face of the financial statements in accordance with CONSOB resolution n. 155519 of July 27th, 2006.

Transactions between Group companies included in the scope of consolidation have been eliminated from the consolidated financial statements. Consequently, they have not been highlighted in these notes.

Compensation of Directors, Statutory Auditors, and General Managers

The following table illustrates the compensation accrued in the year 2017 by each of the Directors, Statutory Auditors, Executives with Strategic Responsibilities of TOD'S S.p.A. (including for the activities that they performed at subsidiaries) for any reason and in any form:

euro 000's	Compensation for office	Compensat. for part. in Commit.	Non cash benefits	Bonus and other incentives	Compens. as employ.	Other compens.	
Directors							
Diego Della Valle (*)	1,832.1	8.7					
Andrea Della Valle (**)	1,232.1	8.7					
Luigi Abete	31.8	7.8					
Maurizio Boscarato	32.1	9.3				220.0	(2)
Luigi Cambri	32.1	9.3				9.0	(4)
Sveva Dalmasso	32.1	7.8					
Emanuele Della Valle	30.6						
Romina Guglielmetti	32.1	17.4					
Emilio Macellari (****)	247.1	8.7				480.0	(2)
Vincenzo Manes	32.1	15.9					
Cinzia Oglio	32.1		2.9	28.8	147.7		
Pierfrancesco Saviotti	31.5	7.5					
Michele Scannavini	32.1						
Stefano Sincini (***)	448.1	8.7	3.9		516.2	111.0	(1)
Total	**4,078.0**	**109.8**	**6.7**	**28.8**	**663.9**	**820.0**	
Statutory Auditors							
Giulia Pusterla (*****)	90.0						
Enrico Colombo	60.0					58.5	(3) (4)
Fabrizio Redaelli	60.0						
Total	**210.0**					**58.5**	
Executives with strategic responsibilities (******)			7.0	63.0	972.2	126.0	(1)

Legend

(*) Chairman of Board of Directors
(**) Vice Chairman of Board of Directors
(***) Chief Executive Officer
(****) Member of Executive Committee
(*****) Chairman of the Statutory Board
(******) Includes General Directors salaries limited to compensation for the employment relationship.

(1) Director of subsidiary
(2) Consultant TOD'S S.p.A.
(3) Statutory Auditor of subsidiary
(4) Member of Compliance Program Supervisory Board

The table above does not include the indemnities for termination of the office as a Director and for the employment relationship of the Chief Executive Officer and General Manager Dott. Stefano Sincini for which reference is made to the press release published on the website www.todsgroup.com on March 13th, 2018.

No severance indemnity is provided for Directors and Executives with Strategic Responsibilities.

31. Events and significant non-recurring transactions

Pursuant to Consob Communication No. DEM/6064293 of July 28th, 2006, the Group did not carry out any significant non-recurring operations in 2017.

32. Items or transactions resulting from unusual and/or exceptional transactions

There were no items or transactions resulting from unusual and/or exceptional transactions during the year.

33. Significant events occurred after the end of the year

In order to raise liquid funds necessary to finance any possible requirements arising from core commercial operations and general business needs, the Parent Company entered into two loan agreements with two major banks after the reporting date. On January 26th, 2018 a loan agreement was entered into with Banco BPM S.p.A., which granted a 4-year revolving credit facility, in a maximum amount of 100 million euros, which had not yet been used at the reporting date. On January 29th, 2018 a loan agreement was entered into with Intesa Sanpaolo S.p.A., in an amount of 100 million euros, which bears no charges and interest, to be repaid in a single instalment on January 29th, 2019.

Independent auditor's report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of TOD'S SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of TOD'S SpA and its subsidiaries (hereinafter also the "TOD'S Group"), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the TOD'S Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of TOD'S SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Key Audit Matters	***Auditing procedures performed in response to key audit matters***
Allowance for inventory write-downs *(See note no. 13 to the consolidated financial statements)* Final inventories of raw materials, semi-finished and finished products, amounting to Euro 312 million at 31 December 2017, are carried net of an allowance for inventory write-downs of Euro 54 million, which is about 15 per cent of the value of final inventories. The allowance for inventory write-downs is estimated centrally by the Parent Company's management with reference to raw materials on the basis of their possibility of use within the production process and as regards finished products based on the ageing of collections in stock and their foreseeable usage through the Group distribution channels. We focused on the allowance for inventory write-downs taking account of its relevance in absolute terms and the complexity of the estimates performed by TOD'S SpA's management to evaluate it.	We obtained the calculation of the consolidated allowance for inventory write-downs prepared by TOD'S management and we verified its mathematical accuracy. In relation to raw materials, we evaluated the adequacy of the allowance by checking the adequacy of the write-down percentages used by the Parent Company that we compared for consistency with those of the previous years, with historical data and with products scrapped in the year, as well as by performing analysis targeted on no- or slow-moving raw material categories. With reference to finished products we evaluated the adequacy of the allowance by verifying the adequacy of the write-down percentages used by the Parent Company on unsold items referred to one season/collection, checking the consistency of these percentages with the previous years, analysing the historical sale trend of non-current collections over the TOD'S Group distribution channels and products scrapped in the year, as well as by verifying the adequacy throughout the years of the amount of the allowance for inventory write-downs initially accrued in relation to each season/collection. In order to ascertain whether additional write-downs needed to be made, we also carried out analyses on the sales with negative margins realised in the subsequent year.

Key Audit Matters	Auditing procedures performed in response to key audit matters
Roger Vivier brand *(See notes no.7.1 and 9 to the consolidated financial statements)*	
The Roger Vivier brand, which was acquired by the Group in January 2016, is recognised among the intangible assets of the consolidated balance sheet at 31 December 2017 in an amount of Euro 416 million, accounting for about 26 per cent of consolidated assets. This brand is recognised at acquisition cost and is not amortised since it is considered with an indefinite useful life. Accordingly, a test is performed at least once a year in order to verify if the recoverable amount of the brand, determined as the higher of the asset's fair value less costs of disposal and its value in use, is higher than its carrying amount (impairment test). Specifically, in accordance with the applicable accounting standards and with the impairment test procedure approved by the Board of Directors on 6 March 2018, the Company compared the book value of the Roger Vivier brand at 31 December 2017 with its value in use determined applying the same evaluation methods used on its acquisition. We focused our attention on the Roger Vivier brand because it consists of a significant amount, its valuation process is complex and it requires a high degree of professional judgement, especially in estimating the expected cash flows and in determining the discount and growth rates.	We obtained the impairment test performed by management on the Roger Vivier brand and the related supporting documentation. We verified the reasonableness of the Roger Vivier 2018 budget and the additional economic projections for the explicit period of the impairment test, as well as the reasonableness of the underlying key assumptions. In particular, we focused our attention on the reasonability of the increase in revenue checking its consistency with the historical growth trend of revenue. We also evaluated the reliability of the projections made by management, verifying that the 2017 budget had been achieved and analysing the actual data in the first two months of 2018. Moreover, we verified, with the support of PwC network experts in evaluations, the consistency of the impairment model adopted by the Company with the standard evaluation practice, as well as the adequacy of the key assumptions used by management and the accuracy of the calculations. Finally, our controls also covered the notes to the consolidated financial statements in order to verify the adequacy and completeness of the disclosures therein.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate TOD'S SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 19 April 2012, the shareholders of TOD'S SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of TOD'S SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the TOD'S Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the TOD'S Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of TOD'S SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of TOD'S SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Bologna, 29 March 2018

PricewaterhouseCoopers SpA

signed by

Edoardo Orlandoni
(Partner)

This report has been translated into English from the original, which was issued in Italian language, solely for the convenience of international readers.

TOD'S s.p.a.

TOD'S S.p.A.

Annual Report as of December 31st, 2017

TOD'S s.p.a.

Financial Statements

Income statement

euro 000's	Notes	Year 17	Year 16
Revenues			
Sales revenues (1)	22	662,576	637,231
Other income (2)	22	7,807	32,657
Total revenues and income		**670,383**	**669,888**
Operating costs			
Change in inventories of work in progress and finished goods (3)		3,665	(29,875)
Cost of raw materials, supplies and material for consumption (3)		(232,158)	(219,440)
Costs for services		(178,984)	(170,429)
Costs of use of third party assets	17.3	(24,859)	(23,889)
Personnel costs	23	(86,823)	(83,011)
Other operating charges		(18,831)	(22,965)
Total operating costs		**(537,990)**	**(549,609)**
EBITDA		**132,393**	**120,279**
Amortisation, depreciation and write-downs			
Amortisation of intangible assets	5	(6,501)	(7,119)
Depreciation of tangible assets	6-7	(11,145)	(11,601)
Other adjustment			
Total amortisation, depreciation and write-downs		**(17,645)**	**(18,720)**
Provisions	13-17	(2,002)	(1,604)
EBIT		**112,746**	**99,955**
Financial income and expenses			
Financial income	24	10,556	13,372
Financial expenses	24	(18,719)	(22,008)
Total financial income (expenses)		**(8,164)**	**(8,636)**
Income (losses) from equity investments	25	7,283	(1,843)
Profit before taxes		**111,866**	**89,477**
Income taxes (4)	10-26	(26,889)	(25,296)
Profit for the period		**84,977**	**64,180**
EPS (euro)		2.57	1.95
EPS diluted (euro)		2.57	1.95

Note:

(1) Sales revenues include transactions with the Group's entities for 277.8 and 280.9 million euros, respectively, in the fiscal year 2017 and 2016. In the FY 2016 the item includes, moreover, non-recurring operations, as reduction of revenues, for 26.3 million euros.

(2)Of which non-recurring for 25 million euros in the FY 2016.

(3)Of which non-recurring for a total of -9.3 million euros in the FY 2016.

(4)Of which non-recurring for 2.1 million euros in the FY 2016.

Statement of Comprehensive Income

euro 000's	Notes	Year 17	Year 16
Profit/(loss) for the period (A)		**84,977**	**64,180**
Other Comprehensive Income that will be reclassified subsequently to profit and loss:			
Gain/(Losses) on derivative financial instruments (cash flow hedge)	16.3	1,400	2,770
Total other Comprehensive Income that will be reclassified subsequently to profit and loss (B)		**1,400**	**2,770**
Other Comprehensive Income that will not be reclassified subsequently to profit and loss:			
Cumultated actuarial gains/(losses) on defined benefit plans	18	(17)	(238)
Total other Comprehensive Income that will not be reclassified subsequently to profit and loss (C)		**(17)**	**(238)**
Total Comprehensive Income (A)+(B)+(C)		**86,360**	**66,712**

Statement of Financial Position

euro 000's	Notes	12.31.17	12.31.16
Non current assets			
Intangible fixed assets			
Assets with indefinite useful life	5	150,919	150,919
Others	5	20,949	23,392
Total intangible fixed assets		**171,868**	**174,311**
Tangible fixed assets			
Buildings and land	6	57,602	56,866
Plant and machinery	6	12,050	11,639
Equipment	6	8,559	9,626
Leasehold improvement	6	3,662	3,882
Others	6	4,902	5,104
Total property, plant and equipment		**86,776**	**87,117**
Other assets			
Investments properties	8	22	25
Investments in subsidiaries	9	583,059	583,145
Deferred tax assets	10		
Others	11	2,588	2,654
Total other assets		**585,669**	**585,824**
Total non-current assets		**844,312**	**847,253**
Current assets			
Inventories	12	164,421	150,882
Trade receivables (1)	13	182,687	188,569
Tax receivables	13	16,267	10,986
Derivative financial instruments	14	2,688	2,034
Others	13	35,213	68,269
Cash and cash equivalents	15	100,802	87,989
Total current assets		**502,078**	**508,729**
Total assets		**1,346,390**	**1,355,981**

to be continued

Note:

(1) Trade receivables include receivables from Group's entities for 99.9 and 99.3 million euros, respectively, at December 31st, 2017 and December 31st, 2016.

continuing

euro 000's	Notes	12.31.17	12.31.16
Shareholders' equity			
Share Capital	16	66,187	66,187
Capital reserves	16	416,507	416,507
Treasury stock	16		
Hedging reserve	16	(186)	(1,586)
Other reserves	16	340,728	333,681
Profit/(Loss) for the period	16	84,977	64,180
Shareholders' equity		**908,213**	**878,970**
Non-current liabilities			
Provisions for risks	17	5,210	4,328
Deferred tax liabilities	10	13,241	8,443
Employee benefits	18	7,370	8,845
Derivative financial instruments	14	1,197	2,687
Bank borrowings	19	137,572	183,612
Other	20	14,340	13,269
Total non-current liabilities		**178,928**	**221,183**
Current liabilities			
Trade payables (2)	21	157,268	131,478
Tax payables	21	3,767	3,201
Derivative financial instruments	14	2,020	7,239
Other	21	46,533	66,944
Bank	19	46,176	46,289
Provisions for risks	17	3,485	678
Total current liabilities		**259,250**	**255,828**
Total Shareholders' equity and liabilities		**1,346,390**	**1,355,981**

Note:

(2) Trade payables include payables to Group's entities for 19.2 and 20.5 million euros, respectively, at December 31st, 2017 and December 31st, 2016.

Statement of Cash Flows

euro 000's	Note	12.31.17	12.31.16
Profit/(Loss) for the period		**84,977**	**64,180**
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Amortizat., deprec., revaluat., and write-downs	5-6-7-8-10-12-13	27,543	38,671
Other non monetary expenses/(income)	14-16-17	(1,755)	710
Income taxes for the period	26	26,889	25,296
Changes in operating assets and liabilities:			
Trade receivables	13	5,378	24,317
Inventories	12	(22,469)	17,577
Tax receivables and tax payables	13-21	(3,441)	5,719
Trade payables	21	25,791	(3,453)
Other assets and liabilities	13-21	(23,046)	18,695
Change in reserve for employee	18	(1,492)	930
Cash flows from operating activities		**118,375**	**192,643**
Interests (paid)/collected		(518)	(284)
Income taxes (paid)/refunded		(23,366)	(48,513)
Net cash flows from operating activities (A)		**94,490**	**143,846**
Net investments in intangible and tangible assets	5-6	(14,857)	(12,904)
(Increase) decrease of equity investments	9	(378)	(405,498)
Reduction (increase) of other non-current assets	11	66	(14)
Cash flows generated (used) in investing activities (B)		**(15,169)**	**(418,416)**
Dividends paid	16	(56,259)	(66,187)
Capital increase	16		207,500
Others change in Equity			
Loans to subsidiaries	28	36,000	(45,000)
Repayments of financial liabilities	19	(46,250)	(119,449)
Proceeds from financial liabilities	19		300,000
Cash flows generated (used) in financing (C)		**(66,509)**	**276,864**
Translation differences (D)			
Cash flows from continuing operations (E)=(A)+(B)+(C)+(D)		**12,813**	**2,294**
Cash flow from assets held for sale (F)			
Cash flows generated (used) (G)=(E)+(F)		**12,813**	**2,294**
Net cash and cash equivalents at the beginning of the period		87,989	85,696
Net cash and cash equivalents at the end of the period		100,802	87,989
Change in net cash and cash equivalents		**12,813**	**2,294**

Statement of Changes in Equity

Year 2017 euro 000's	Share capital	Capital reserves	Hedging reserve	Retained earnings	Total
Balances as of 01.01.17	**66,187**	**416,507**	**(1,586)**	**397,862**	**878,970**
Profit & Loss account				84,977	84,977
Directly in equity			1,400	(17)	1,383
Total Comprehensive Income			**1,400**	**84,960**	**86,360**
Dividends				(56,259)	(56,259)
Capital increase					
Share based payments					
Other (1)				(858)	(858)
Balances as of 12.31.17	**66,187**	**416,507**	**(186)**	**425,705**	**908,213**

Year 2016 euro 000's	Share capital	Capital reserves	Hedging reserve	Retained earnings	Total
Balances as of 01.01.16	**61,219**	**213,975**	**(4,356)**	**401,028**	**671,866**
Profit & Loss account				64,180	64,180
Directly in equity			2,770	(238)	2,531
Total Comprehensive Income			**2,770**	**63,942**	**66,712**
Dividends				(66,187)	(66,187)
Capital increase	4,968	202,532			207,500
Share based payments					
Other				(921)	(921)
Balances as of 12.31.16	**66,187**	**416,507**	**(1,586)**	**397,862**	**878,970**

Note:

(1) They include the use of the specific reserve for promoting territorial solidarity projects.

TOD'S s.p.a.

Notes to the Separate Financial Statements

1. General notes

The parent company TOD'S S.p.A., registered office in Sant'Elpidio a Mare (Fermo) at Via Filippo Della Valle 1, is listed on Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A..
At December 31st, 2017 TOD'S S.p.A. share capital is owned by DI.VI. FINANZIARIA of DIEGO DELLA VALLE & C. S.r.l. for 50.291%.
The Separate financial statements has been prepared by the Board of Directors of TOD'S S.p.A. on March 13th, 2018 for the approval of the shareholders meeting on April 19th, 2018 and it is subject to PricewaterhouseCoopers S.p.A. audit.

2. Basis of preparation

The Separate Financial Statements were prepared in accordance with IAS/IFRS (International Accounting Standards – IAS -, and International Financial Reporting Standards – IFRS) issued by IASB, based on the text published on the Gazzetta Ufficiale of European Union (G.U.C.E.). IAS/IFRS refers also to all revised International Accounting Standards (IAS) and all interpretative documents issued by the IFRIC (International Financial Reporting Interpretations Committee), previously nominated Standing Interpretations Committee (SIC).
The Notes have been supplemented by the additional information required by CONSOB and its implementing measures of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, pursuant to Article 114(5) of the Consolidated Law on Finance-TUF), Article 78 of the Issuer Regulation, the EC document of November 2003 and, when applicable, the Italian Civil Code. Consistently with the financial statements for the previous year, certain information is provided in the Report by the Board of Directors on Operations.
The separate financial statements has been prepared on the going concern basis, and it includes the statement of financial position, the income statement, statement of comprehensive income, the statement of cash flows and the statement of changes in equity of TOD'S S.p.A. The separate financial statements is prepared in euro currency.
For presentation of its operating income, the Company adopted the presentation of the profit and loss by nature. The format of representing revenues and costs by nature is followed, indicating the EBITDA and EBIT results as in the past, since they are considered representative indicators of company performance. In addition, it has been prepared the statement of comprehensive income which include transactions that are outside the income statement but they produce their effects directly to equity. Transactions represented in the statement of comprehensive income are net of tax effects.

The statement of financial position shows current items, for which it is supposed that they will be realized or closed during the normal operating cycle, separately from non-current items (both assets and liabilities).

The financial statements schemes, joined with both report on operations and supplementary notes, are considered to be those that provide the best organized representation of the Company's financial position and income. In case, for the application of a new accounting standards, there is a change in the nature of the operations or re-examination of the financial statements and it is necessary or more appropriate to modify some figures to provide a clearer information to the stakeholders, the comparative figures will be reclassified in order to improve the comparability of the information between the years. In such a case, if significant, appropriate information in the notes to the separate financial statements will be provided. In accordance with art. 3 of Consob resolution n. 18079 of January 20th, 2012 the Company adopt the waiver resulting in art. 70 c. 8 and 71 c. 1-bis of Consob regulation n. 11971/99 (and subsequent modifications) in connection with making available, to third parties, all the documents related to mergers, corporate splits, capital increases, acquisitions and disposals in the corporate headquarter.

3. Evaluation methods and accounting standards

The accounting standards applied to the preparation of the Separate Financial Statements are consistent with those applied to the preparation of the Separate Financial Statements at December 31st, 2016, except for the information reported below in relation to any amendments, interpretations and new accounting standards applicable from January 1st, 2017.

Accounting standards, amendments and interpretations endorsed by the European Union, which are applicable from January 1st, 2017 and which were first adopted in TOD'S S.p.A. separate financial statements at December 31st, 2017

• Amendments to IAS 12: Income taxes. These amendments, which were published by the IASB on January 19th, 2016, clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The application of this standard had no significant impact on the Company.

• Amendments to IAS 7: Statement of Cash Flows. These amendments, which were issued by the IASB on January 29th, 2016, require information to be provided in the financial statements about changes in financial liabilities, aimed at improving the disclosures provided to investors in order to help them to better understand the changes recorded in said payables. The application of this standard had no significant impact on the Company.

• "Annual improvements to IFRS Standards", IFRS 12: "Disclosure of Interests in Other Entities", which were issued by the IASB on April 18th, 2014. This amendment provides for an investment entity, which prepares the financial statements in which all of its subsidiaries are measured at fair value through profit or loss, to provide the disclosure required for investment entities according to IFRS 12. The application of this standard had no impact on the Company.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2018 or later and not early adopted by TOD'S S.p.A.

• IFRS 15 – Revenue from Contracts with Customers. On May 28th, 2014 the IASB published a document which requires an entity to recognise revenue at the time the control of goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The new revenue recognition model sets out a process in five steps

1) Identifying the contract with a customer;
2) Identifying the performance obligations;
3) Determining the transaction price;
4) Allocating the transaction price to the performance obligations;
5) Recognising revenue when the entity satisfy a performance obligation.

The new standard also requires additional disclosures regarding the nature, amount, timing and uncertainty relating to revenues and cash flows arising from these contracts with customers. The IASB expects to adopt it from 2018, while the European Union endorsed it on September 22nd, 2016. Furthermore, on April 12th, 2016 the IASB published amendments to the standard: Clarifications to IFRS 15 Revenue from Contracts with Customers, which are also applicable as from January 1st, 2018. These amendments are aimed at clarifying the procedures to identify an entity as a "Principal" or as an "Agent" and to establish whether revenues from licences must be deferred throughout the term thereof.
The future adoption of this standard will not have any significant impact on the Company's financial statements.

•IFRS 9 – Financial Instruments. On July 24th, 2014 the IASB published the final document constituting the conclusion of the process, divided into three phases: Classification and Measurement, Impairment and General Hedge Accounting, entirely revising IAS 39. The document introduces new requirements for classifying and measuring financial assets and liabilities. Specifically, as regards financial assets, the new standard adopts a single approach based on how the financial instruments are managed and on the contractual cash flow characteristics of the financial assets themselves in order to determine the related valuation method, aiming at eventually replacing the various rules laid down under IAS 39. As regards financial liabilities, the main amendment concerns the method of accounting for fair value changes in a financial liability designated as at fair value through profit or loss, which are due to own credit of the financial liability itself. According to the new standard, these changes must be recognised in other comprehensive income, without affecting profit or loss. The main developments relating to hedge accounting are:

- Changes in the type of transactions that qualify for hedge accounting; specifically, a more extensive range of risks has been introduced for non-financial assets/liabilities that qualify for hedge accounting;
- A change in the method of accounting for forward contracts and options included in a hedge accounting relationship, in order to reduce profit or loss volatility;
- Changes in the effectiveness test by replacing the current methods based on the 80-125% range with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, entities are no longer required to perform an assessment of the retrospective effectiveness of the hedging relationship;
- A greater flexibility of the accounting methods is offset by improved disclosures on the risk management activities carried out by entities.

The new document includes a single model for the impairment of financial assets based on expected losses.

The IASB expects to adopt it from 2018, while the European Union endorsed it on November 22nd, 2016. The future adoption of this standard will not have any significant impact on the Company's financial statements.

• IFRS 16: Leases: In January 2016 the IASB published a document for the initial recognition, measurement, presentation and disclosure of lease agreements for both the parties to a contract, aimed at replacing IAS 17 Leasing. The document is not applicable to service contracts but only to lease agreements or to the leasing components of other contracts. The standard defines the lease as an agreement that transfers the right of use of an asset to the customer (lessee) for a certain period of time and in exchange for a consideration. The new standard eliminates the classification based on finance and operating leases and introduces a single accounting method that provides for the recognition of assets and liabilities for all the leases with a term of more than 12 months and the separate recognition of amortisation, depreciation and interest expense through profit or loss. As regards the lessor, no significant changes were made to the accounting method with respect to the provisions that are currently set out under IAS 17. IFRS 16 was endorsed by the European Union on October 31st, 2017 and will become effective from January 1st, 2019. An internal analysis was started in relation to the major contracts in place, which was aimed at gathering information required to outline their foreseeable effects in financial and economic terms.

• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. These amendments were issued by the IASB on September 12th, 2016, endorsed by the European Union on November 3rd, 2017 and became applicable with the effective date being expected on January 1st, 2018. The amendments were intended to address concerns about the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. Furthermore, the amendments provide two options for entities that enter into insurance contracts within the scope of IFRS 4: i) an option that would permit entities to reclassify, from profit or loss to comprehensive income, some of the income or expenses arising from designated financial assets; and (ii) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. The future adoption of this standard will not have any significant impact on the Company's financial statements.

• Amendments to IFRS 2: Clarifications of Classification and Measurement of Share-based Payment Transactions. These amendments, which were published by the IASB on June 20th, 2016, provide some clarifications relating to the method of accounting for the effects of vesting conditions in the case of cash-settled share-based payments, the classification of share-based payments on a net settlement basis and any change in the terms and conditions of a share-based payment implying its reclassification from cash-settled to equity-settled items. The amendments will become applicable from January 1st, 2018. The possible future adoption of this standard will not have any significant impact on the Group's financial statements.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union.

• Amendments to IAS 40: regarding transfers of investment property. These amendments were issued by the IASB on December 8th, 2016, with the effective date being expected on January 1st, 2018.

The amendment provides as follows: i) paragraph 57 of IAS 40 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use; ii) the list of evidence in paragraph 57(a) – (d) is designated as non-exhaustive list of examples. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• Amendment to IFRIC 22: Foreign Currency Transactions and Advance Consideration. This interpretation, which was issued by the IASB on December 8th, 2016, covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts. The IASB expects to adopt it from January 1st, 2018. Based on a preliminary analysis, the possible future adoption of this interpretation should not have any significant impact on the Company's financial statements.

• Annual improvements to IFRS Standards: 2014-2016 Cycle. This document was issued by the IASB on December 8th, 2016, the effective date being expected on January 1st, 2018. This session concerned the following topics: i) IFRS 1: short-term exemptions provided for in paragraphs E3-E7 are eliminated, since the reasons for their provision have ceased to exist; ii) IAS 28: it is clarified that it is possible to make the decision to measure, at fair value through profit or loss, any investment in a subsidiary or a joint venture held by a venture capital company, in relation to each investment in subsidiaries or joint ventures since their initial recognition. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• IFRIC 23 "Uncertainty over Income Tax Treatments". On June 7th, 2017 the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments", providing instructions to account for (current and/or deferred) tax assets and liabilities relating to income tax as a result of uncertainties in the application of tax regulations. The provisions of IFRIC 23 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• Amendments to IFRS 9 "Prepayment features with negative compensation". On October 12th, 2017 the IASB issued Amendments to IFRS 9 to deal with some issues concerning the applicability and classification of IFRS 9 "Financial Instruments" as to certain financial assets, whose early repayment is permitted. Furthermore, the IASB clarifies some issues concerning the accounting for financial liabilities following changes in the same. The provisions of Amendments to IFRS 9 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures". On October 12th, 2017 the IASB issued Amendments to IAS 28 to clarify the application of IFRS 9 'Financial Instruments' for long-term interests in subsidiaries or joint ventures included in investments in these entities for which the equity method is not applied. The provisions of Amendments to IAS 28 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• "Annual improvements to IFRSs: 2015-2017 Cycle". The IASB has published the Annual Improvements to IFRSs, 2015-2017 Cycle, which include amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements. The amendments will become effective from January 1st, 2019. Early application is permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• IFRS 17 "Insurance Contracts". On May 18th, 2017 the IASB issued IFRS 17 "Insurance contracts", which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts, in order to give a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The provisions of IFRS 17 will become effective from periods beginning on or after January 1st, 2021. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

• Amendments to IAS19, "Employee benefits'- Plan amendment, Curtailment or settlement". On February 7th, 2018 the IASB issued these amendments to clarify how to calculate pension costs when there is a change in defined-benefit plans. The provisions of Amendments to IAS 19 will become effective from periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

3.1 Use of estimates. Preparation of the financial statements and notes in conformity with IFRS requires that management make judgments, estimates and assumptions which impact on the values reported for assets and liabilities, as well as disclosures relating to contingent assets and liabilities at the balance sheet date. Estimates and assumptions are based on historical data and other elements deemed significant, as at the end of the accounting period of reference.

3.2 Transactions in foreign currency. The functional currency (the currency used in the principal economic area where the company operates) used to present the financial statements is the euro. Foreign currency transactions are translated into the functional currency by applying the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the financial statements are translated by using the exchange rate in effect at the closing date. Non-monetary assets and liabilities are valued at their historic cost in foreign currency and translated by using the exchange rate in effect at the transaction date.

The foreign exchange differences arising upon settlement of these transactions or translation of cash assets and liabilities are recognized on the profit and loss account.

3.3 Derivative financial instruments. The fundamental characteristics of the derivative financial instruments are set out in the paragraph on Financial Assets and in the paragraph on Loans. The company uses derivate financial instruments (mainly currency futures contracts) to hedge the risks stemming from foreign exchange exposure and to hedge interest rate risks deriving from its operating activity, without any speculative or trading purposes, and consistently with the strategic policies of centralized cash management dictated by the Board of Directors.

When derivative transactions refer to a risk connected with the variability of forecast transaction cash flow, they are recognized according to the rules for cash flow hedge until the transaction is recorded on the books. Subsequently, the derivatives are treated in accordance with fair value hedge rules, insofar as they can be qualified as instruments for hedging changes in the value of assets or liabilities carried on the balance sheet.

The hedge accounting method is used at every financial statement closing date. This method envisages posting derivatives on the balance sheet at their fair value. Posting of the changes in fair value varies according to the type of hedging at the valuation date:

- for derivatives that hedge forecast transactions (i.e. cash flow hedge), the changes are recognized in shareholders' equity, while the portion for the ineffective amount is recognized on the profit and loss account, under financial income and expenses; differences in fair value already recognized on specific reserves are booked in profit and loss, adjusting operating margins, once hedged items (trade receivables/payables) have been already recognized. For hedging derivatives related to interest rate risks on loans, the change in fair value, already recognized in the cash flow hedge reserve, are booked in profit and loss, adjusting financial income/charges once hedged items (financial receivables/liabilities) have been already recognized;

- for derivatives that hedge receivables and payables recognized on the balance sheet (i.e. fair value hedge), the fair value differences are recognized entirely on the profit and loss account, under financial income and expenses. Furthermore, the value of the hedged item (receivables/payables) is adjusted for the change in value attributable to the hedged risk, using the item financial income and expenses as a contra-entry.

3.4 Intangible fixed assets.

i. Goodwill. All business combinations are recognized by applying the acquisition method. Goodwill is measured at the acquisition date as the excess of the assets and liabilities recognised in accordance with IFRS 3 and the fair value of consideration transferred including the amount of any non-controlling interests recognised.

If the company's interest in the fair value of assets, liabilities, and identifiable potential liabilities exceeds the cost of the acquisition (negative goodwill) after redetermination of these values, the excess is immediately recognized on the profit and loss account.

For acquisitions prior to January 1st, 2005, the date of transition to IAS/IFRS, goodwill retained the values recognized on the basis of the previous Italian GAAP, net of accumulated amortization up to the transition date.

Goodwill is recognized on the financial statements at its cost adjusted for impairment losses. It is not subject to amortization, but the adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section *Impairment losses*.

ii. Trademarks. These are recognized according to the value of their cost and/or acquisition, net of accumulated amortization at the date of transition to IAS/IFRS. Trademarks TOD'S, HOGAN and FAY are classified as intangible fixed assets with an indefinite useful life and thus are not amortized, insofar as:

- they play a primary role in company strategy and are an essential driver thereof;
- the corporate structure, construed as organized property, plant, and equipment, and organization itself in a figurative sense, is closely correlated with and dependent on dissemination and development of the trademarks on the markets;
- the trademarks are proprietary, properly registered, and constantly protected pursuant to law, with options for renewal of legal protection, upon expiration of the registration periods, that are not burdensome, easily implemented, and without external impediments;

- the products sold by the company with these trademarks are not subject to particular technological obsolescence, which is characteristic of the luxury market in which the company operates; on the contrary, they are consistently perceived by the market as being innovative and trendy, to the point of being models for imitation or inspiration;
- in the national and/or international context characteristic of each trademark, they are distinguished by market positioning and notoriety that ensures their dominance of the respective market segments, being constantly associated and compared with benchmark brands;
- in the relative competitive context, it can be affirmed that the investments made for maintenance of the trademarks are proportionately modest with respect to the large forecast cash flows.

The adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section *Impairment losses*.

iii. Research and development costs. The research costs for a project are charged fully to the profit and loss account of the period in which they are incurred.
The development costs of an activity are instead capitalized if the technical and commercial feasibility of the relative activity and economic return on the investment are certain and definite, and the company has the intention and resources necessary to complete the development.
The capitalized costs include the costs for materials, labor, and an adequate portion of indirect costs. They are recognized at cost, net of accumulated amortization and depreciation (see below) and impairment losses.

iv. Other intangible fixed assets. These are identifiable non-monetary intangible assets under the control of the company and capable of causing the company to realize future economic benefits.
They are initially recognized at their purchase cost, including expenses that are directly attributable to them during preparation of the asset for its intended purpose or production, if the conditions for capitalization of expenses incurred for internally generated expenses are satisfied.
The cost method is used for determining the value reported on subsequent statements, which entails posting the asset at its cost net of accumulated amortization and write-downs for impairment losses.

v. Subsequent capitalization. The costs incurred for these intangible fixed assets after purchase are capitalized only to the extent that they increase the future economic benefits of the specific asset they refer to. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

vi. Amortization. Intangible fixed assets (excluding those with an indefinite useful life) are amortized on a straight-line basis over the period of their estimated useful life, starting from the time the assets are available for use.

3.5 Tangible fixed assets and Investments properties.

i. Property, plant, and equipment owned by the company. They are first recognized at their purchase cost or at the cost recalculated at the date of transition to IFRS, including any directly attributable ancillary expenses.

Following first-time recognition, these assets are reported net of their accumulated depreciation and impairment losses (i.e. in accordance with the Cost Model).

For those assets whose depreciation must be calculated using the component approach, the portions of cost allocable to the individual significant components characterized by a different useful life are determined. In this case, the value of land and buildings is kept separate, with only buildings being depreciated.

ii. Leasing. Lease agreements in which the Company assumes all the risks and benefits deriving from ownership of the asset are classified as finance leasing. The assets (real estate, plant, and machinery) possessed pursuant to these agreements are recorded under property, plant, and equipment at the lesser of their fair value on the date the agreement was made, and the current value of the minimum payments owed for leasing, net of accumulated depreciation and any impairment losses (according to the rules described in the section *Impairment losses*). A financial payable for the same amount is recognized instead under liabilities, while the component of interest expenses for finance leasing payments is reported on the profit and loss account according to the effective interest method.

iii. Subsequent capitalizations. The costs incurred for property, plant, and equipment after purchase are capitalized only to the extent that they increase the future economic benefits of the asset. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

iv. Investments properties. Real estate investments are originally recognized at cost, and then recognized at their cost as adjusted for accumulated depreciation and impairment losses.

Depreciation is calculated on a systematic, straight-line basis according to the estimated useful life of the buildings.

v. **Depreciation.** Property, plant, and equipment were systematically depreciated at a steady rate according to the depreciation schedules defined on the basis of their estimated useful life. Land is not depreciated. The principal depreciation rates applied are as follows:

	% depreciation
Industrial buildings	3%
Machinery and plant	12,5%
Equipments	25%
Forms and punches, clichés, molds and stamp	25%
Furniture and furnishings	12%
Office machines	20%
Car and transport vehicles	20%-25%

The photovoltaic plant is depreciated over a period of 20 years. The costs for leasehold improvements, which mainly include the costs incurred for set up and modernization of the DOS network and all the other real estate that is not owned but used by the company (and thus instrumental to its activity) are depreciated according to the term of the lease agreement or the useful life of the asset, if this is shorter.

3.6 Impairment losses. In the presence of indicators, events, or changes in circumstances that presume the existence of impairment losses, IAS 36 envisages subjecting intangible fixed assets and property, plant and equipment to the impairment test in order to assure that assets with a value higher than the recoverable value are not recognized on the financial statements. This test is performed at least once annually for non-current assets with an indefinite life in the same way as that used for non-current assets that have not yet been placed in service.

Confirmation of the recoverability of the values recognized on the balance sheet is obtained by comparing the book value at the reference date and the fair value less costs to sale (if available) or value in use. The value in use of a tangible or intangible fixed asset is determined according to the estimated future financial flows expected from the asset, as actualized through use of a discount rate net of taxes, which reflects the current market value of the current value of the cash and risks related to Group's activity.

If it is not possible to estimate an independent financial flow for an individual asset, the cash generating unit to which the asset belongs and with which it is possible to associate future cash flows that can be objectively determined and independent from those generated by other operating units is identified. Identification of the cash generating units was carried out consistently with the organizational and operating architecture of the Group.

If the impairment test reveals an impairment loss for an asset, its book value is reduced to the recoverable value by posting a charge on the profit and loss account.
When the reasons for a write-down cease to exist, the book value of the asset (or the cash generating unit), with the exception of goodwill, is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the impairment loss had not been charged. The restored value is recognized immediately on the profit and loss account.

3.7 Investments in subsidiaries and associated companies. The investments in subsidiaries, joint ventures, and associated companies that are not classified as held for sale in compliance with IFRS 5 are recognised at their historic cost. The value recognised on the financial statements is subjected to the impairment test, in case of trigger events, as envisaged by IAS 36, and adjusted for any impairment losses; the write-off are reversed in case the conditions determining the adjustment no longer exists or has decreased.

3.8 Financial assets. These are recognized and cancelled on the balance sheet according to the trading date and are initially valued at fair value which generally correspond to the cost, including costs directly related with the acquisition.
At the subsequent financial statement dates, the financial assets that the company intends and is able to hold until maturity (securities held until maturity) are recognized at the amortized cost according to the effective interest method, net of impairment losses.
Financial assets other than those held to maturity are classified as held for trading or available for sale, and are recognized at their fair value at the end of each period. When the financial assets are held for trading, the profits and losses deriving from changes in the fair value are recognized on the profit and loss account for the period. In the case of financial assets available for sale, the profits and losses deriving from changes in the fair value are recognized directly in shareholders' equity until they are sold or have sustained a loss in value. At that time, the aggregate profits or losses that were previously recognized in shareholders' equity are recognized on the profit and loss account of the period.

3.9 Inventories. These are recognized at the lower of purchase cost and their assumed disposal value. The net disposal value represents the best estimate of the net sales price that can be realized through ordinary business processes, net of any production costs not yet incurred and direct sales costs.

The cost of inventories is based on the weighted average cost method. The production cost is determined by including all costs that are directly allocable to the products, regarding – for work in progress and/or semi-finished products – the specific stage of the process that has been reached. The values that are thus obtained do not differ appreciably from the current production costs referring to the same classes of assets.
A special depreciation reserve is set aside for the portion of inventories that are no longer considered economically useable, or with a presumed disposal value that is less than the cost recognized on the financial statements.

3.10 Trade receivables and other receivables. These are initially recognised at fair value, including transaction costs, and subsequently measured at amortized cost. The measurement considers the recoverable amount of the assets through the recognition of a specific allowance for doubtful accounts determined as follows:

- receivables under litigation, with certain and precise evidence documenting the impossibility of collecting them, have been analytically identified and then written down;
- for other bad debts, prudent allowances for write-downs have been set aside, estimated on the basis of information updated at the date of this document.

3.11 Cash. This includes cash on hand, bank demand deposits, and financial investments with a maturity of no more than three months. These assets are highly liquid, easily convertible into cash, and subject to a negligible risk of change in value.

3.12 Assets and liabilities held for sale. Non-current assets (or disposal groups) are classified as available for sale when their carrying amount is recovered through a sale transaction rather than through continuing use. They are not depreciated and are measured at the lower of carrying amount and fair value, less costs to sell. Assets available for sale and related liabilities are presented separately from other assets and liabilities in the statement of financial position. TOD'S Group doesn't held any assets and liabilities held for sale.

3.13 Reserve for employee. Employee benefits include (i) short-term employee benefits such as wages, salaries and related social security contributions, accrued but not yet paid, paid annual leave and paid sick leave, etc.; (ii) post-employment benefits, such as pensions or retirement benefits; (iii) other long-term benefits; and (iv) termination benefits.

Short-term benefits are recognised periodically on an accruals basis and are made up of liabilities to employees that have not been settled by the reporting date.

Post-employment benefits are divided into two categories:

i. **Defined contribution plans.** The payments for eventual defined contribution plans are charged to the profit and loss account in the period that they are owed.

ii. **Defined benefit plans.** The costs of defined benefit plans are calculated using the Projected Unit Credit Method, carrying out the actuarial measurements at the end of each financial year. Past service costs are recognised immediately to the extent that these benefits have already accrued; otherwise they are amortised on a straight-line basis within the average period within which the benefits are expected to accrue. The financial costs that have accrued on the basis of the annual discounting rate are recognised in the income statement immediately. Actuarial gains and losses are recognised through other changes in comprehensive income under the specific equity item. Liabilities for post-employment benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans. On the other hand, there are no other long-term employee benefits or termination benefits in the financial statements.

iii. **Share based payments.** The payments based on shares are assessed at their fair value on the assignment date. This value is recognized on the profit and loss account on a straight-line basis throughout the period of accrual of the rights. This allocation is made on the basis of a management estimate of the stock options that will actually accrue in favor of vested employees, considering the conditions for use thereof not based on their market value.
The fair value is determined by using the binomial method. No share based payments result in the current consolidated financial statements.

3.14 Payables.

i. **Bank overdrafts and financing.** Interest-bearing financing and bank overdrafts are initially recognized at fair value net of transaction costs, and subsequently valued at the amortized cost, using the effective interest method.
ii. **Trade payables and other payables.** These are measured at fair value which generally correspond to their nominal value.

3.15 Provisions for risks. These are certain or probable liabilities that have not been determined at the date they occurred and in the amount of the economic resources to be used for fulfilling the obligation, but which can nonetheless be reliably estimated. They are recognized on the balance sheet in the event of an existing obligation, legal or constructive, resulting from a past event, and it is likely that the company will be asked to satisfy the obligation.

If the effect is significant, and the date of the presumed discharge of the obligation can be estimated with sufficient reliability, the provisions are recognized on the balance sheet discounting future cash flows.
The provisions that can be reasonably expected to be discharged twelve months after the reference date are classified on the financial statements under non-current liabilities. Instead, the provisions for which the use of resources capable of generating economic benefits is expected to take place in less than twelve months after the reference date are recognized as current liabilities.

3.16 Share capital.
i. Share capital. The total value of shares issued by the parent company is recognized entirely under shareholders' equity, as they are the instruments representing its capital.
ii. Treasury stock. The consideration paid for buy-back of share capital (treasury stock), including the expenses directly related to the transaction, is subtracted from shareholders' equity. In particular, the par value of the shares reduces the share capital, while the excess value is recognized as an adjustment to additional paid-in capital.

3.17 Dividends. The allocation of dividends to persons possessing instruments representing share capital after the reference date of the financial statement is not recognized under financial liabilities on the same reference date.

3.18 Revenues recognition. Revenues are recognized on the profit and loss account when the significant risks and benefits connected with ownership of the transferred assets are transferred to the buyer. In reference to the main transactions realized by the company, revenues are recognized on the basis of the following principles:
a. Sales of goods – retail. The company operates in the retail channel through its DOS network. Revenues are recognised when the goods are delivered to customers. Sales are usually collected in the form of cash or through credit cards;
b. Sales of goods – wholesale. The company distributes products on the wholesale market. These revenues are recognised when the goods are shipped and considering the estimated effects of returns at the end of the year;
c. Provision of services. These revenues are accounted for in proportion to the stage of completion of the service rendered at the reference date and in accordance with contractual provisions;
d. Royalties. These are recognised on the financial statements on accrual basis.

3.19 Financial income and expenses. These include all financial items recognized on the profit and loss account for the period, including interest expenses accrued on financial payables calculated by using the effective interest method (mainly current account overdrafts, medium-long term financing), foreign exchange gains and losses, gains and losses on derivative financial instruments (according to the previously defined accounting principles), received dividends, the portion of interest expenses deriving from accounting treatment of assets held under finance leasing (IAS 17) and employee reserves (IAS 19).
Interest income and expenses are recognized on the profit and loss account for the period in which they are realized/incurred, with the exception of capitalized expenses (IAS 23).
Dividend income contributes to the result for the period in which the company accrues the right to receive the payment.

3.20 Income taxes. The income taxes for the period include determination both of current taxes and deferred taxes. They are recognized entirely on the profit and loss account and included in the result for the period, unless they are generated by transactions recognized directly to shareholders' equity during the current or another period. In this case, the relative deferred tax liabilities are also recognized under shareholders' equity.
Current taxes on taxable income for the period represent the tax burden determined by using the tax rates in effect at the reference date, and any adjustments to the tax payables calculated during previous periods.
Deferred tax liabilities refer to the temporary differences between the book values of assets and liabilities on the balance and the associated values relevant for determination of taxable income. For all temporary taxable differences, it is recognized the tax liability with the exception of liabilities deriving from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not influence either the income (loss) reported on the financial statements or taxable income (tax loss).
Deferred tax assets and liabilities are compensated if and only if there is an executive right to compensate the related current taxes and if deferred tax assets and liabilities are related to income taxes applied by the same tax authority.
Deferred tax assets deriving from temporary deductible differences are recognized on the financial statements only to the extent that it is likely that taxable income will be realized for which the temporary deductible difference can be used. No recognition is posted in case the difference between the carrying amounts and the tax bases relate to goowill arising from business combinations.

The taxes in question (deferred tax assets and liabilities) are determined on the basis of a forecast of the assumed percentage weight of the taxes on the income of the fiscal years in which the taxes will occur, taking into account the specific nature of taxability and deductibility. The effect of change in tax rates is recognized on the profit and loss account of the fiscal year in which this change takes place. The accrual for taxes that could arose from the transfer of non-distributed profits from subsidiaries are posted only when there is the real intention to transfer such profits.

3.21 Statement of cash flows. The statement of cash flows is drafted using the "indirect" method. The net financial flows of operating activity are determined by adjusting the result for the period of the effects deriving from change to net operating working capital, non-monetary items, and all the other effects connected with investment and financing activities.
Net cash and cash equivalents are made up cash and cash equivalents net of bank overdrafts.

4. Management of financial risks

The company has implemented a system for monitoring its financial risks in accordance with the guidelines set out in the Corporate Governance Code of Listed Companies. As part of this policy, the financial risks connected with its operations are constantly monitored in order to assess their potential negative impact and undertake appropriate action to mitigate them. These risks are analysed as follows, highlighting the company's level of exposure. It also includes a sensitivity analysis designed to quantify the potential impact of hypothetical fluctuations in benchmark parameters on final results.

i. Credit risk

Credit risk represents the exposure to potential losses stemming from failure to discharge obligations towards trading counterparties. The company generates its revenues through three main channels: Group companies (directly operated store network), franchisees and customers (multi-brand). There is practically no credit risk on receivables from the Company, since almost all the entities belonging to the TOD'S Group are wholly owned by the Group. The receivables from independent customers (*franchisee* e *wholesale*), are subject to a hedging policy designed to streamline credit management and reduce the associated risk. In particular, company policy does not envisage granting credit to customers, while the creditworthiness of all customers, both long-standing and potential ones, is periodically analysed in order to monitor and prevent possible solvency crises.

The following table shows the ageing of trade receivables to third parties (and thus excluding intercompany positions) outstanding at December 31st, 2017 gross of allowances for doubtful accounts:

euro 000's		Overdue			
	Current	0>60	60>120	Over	Total
Third Parties	57,838	20,940	2,082	8,160	89,020

The prudent estimate of losses on the entire credit mass existing at December 31st, 2017 was 6.2 million euros. The total amount of overdue receivables at December 31st, 2017 for 31.2 million euros is now about 10 million euros.

ii. Liquidity risk

The liquidity risk represents the risk stemming from the unavailability of financial resources as necessary to meet the short-term commitments assumed by the Company and its own financial requirements. The main factors that determine the degree of liquidity are the resources generated or used by operating and investment activities and, on the other hand, the due dates or renewal dates of its payables or the liquidity of its financial investments and market conditions.

This risk is limited by taking actions aimed at ensuring a balanced structure of the Company's capital and by maintaining such a level of cash and cash equivalents as is required to meet its financial debt requirements at the relevant maturity dates in an adequate manner. Particular attention is paid to the definition of the credit counterparty that is considered to be suitable for cash operations and that is identified according to increasingly selective liquidity, security and yield criteria and in line with the Management's instructions.

The table below shows the credit lines already used and available at December 31st, 2017 compared with December 31st, 2016:

Credit lines euro 000's	Cash Credit lines	Self-liquidating Credit lines	Financial Credit lines	Total
12.31.17				
Credit lines	41,000	161,000	300,000	502,000
Utilizations				
Credit lines available as of 12.31.17	**41,000**	**161,000**	**300,000**	**502,000**
12.31.16				
Credit lines	41,000	160,741	300,000	501,741
Utilizations				
Credit lines available as of 12.31.16	**41,000**	**160,741**	**300,000**	**501,741**

Furthermore, it should be noted that, the Company, in order to borrow the liquid funds needed to meet any possible requirement connected with ordinary sales and general corporate operation, entered into three loan agreements, by which have been granted three medium/long-term revolving credit facilities respectively by: *i)* Crédit Agricole Corporate and Investment Bank and Cassa di Risparmio di Parma e Piacenza S.p.A. (Crédit Agricole Group), signed on January 27th 2016, for a maximum amount of 100 million euros, *ii)* Unicredit S.p.A., signed on November 9th 2016, for a maximum amount of 100 million euros and *iii)* B.N.L. S.p.A., signed on November 28th 2016, for a maximum amount of 100 million euros. These credit facilities will be available for a period of 3 years. At December 31st, 2017 no amount has been used in connection with the above mentioned credit facilities.

The table below shows the maturity of the outstanding financial liabilities at December 31st, 2017 and 2016:

euro 000's	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
12.31.17				
Bank borrowings		137,572		137,572
Other non-current liabilities		10,287		10,287
Trade payables	157,268			157,268
Bank	46,176			46,176
Derivative financial instruments	2,020	1,197		3,217
Other current liabilities	1,063			1,063
Total	**206,527**	**149,056**		**355,583**
12.31.16				
Bank borrowings		183,612		183,612
Other non-current liabilities		9,973		9,973
Trade payables	131,478			131,478
Bank	46,289			46,289
Derivative financial instruments	7,239	2,687		9,926
Other current liabilities	1,464			1,464
Total	**186,470**	**196,272**		**382,742**

Considering the Company profitability and its capacity to generate cash, it's reasonable to believe that liquidity risk is not significant. Moreover, it should be noted that such capacity of generating cash may allow Company to meet these commitments in a period of time that is potentially shorter than that in which the loans and credit facilities are expected to be available.

As regards financial operations, the corporate policy is to continue to invest all of its available liquid funds in sight bank deposits, without making use of financial instruments, including those of the money market, and dividing its deposits among an adequate number of banks, which are carefully selected by taking account of the remuneration of deposits, as well as on the basis of their reliability.

iii. Market risk

IFRS 7 includes in this category all risks that are directly or indirectly connected with the fluctuation in prices on physical and financial markets to which the company is exposed:

– exchange rate risk;
– interest rate risk;
– commodity risk, connected with the volatility of prices for the raw materials used in the production process.

The company is exposed to exchange rate and interest rate risk, since there is no physical market subject to actual fluctuations in the purchase prices for raw materials used in the production process.

The following paragraphs analyse the individual risks, using sensitivity analysis as necessary to highlight the potential risk on final results stemming from hypothetical fluctuations in benchmark parameters. As envisaged by IFRS 7, these analyses are based on simplified scenarios applied to the final results for the periods referred to. By their very nature, they cannot be considered indicators of the actual effects of future changes in benchmark parameters of a different asset and liability structure and financial position different market conditions, nor can they reflect the interrelations and complexity of the reference markets.

Exchange rate risk. Due to its commercial operations, the company is exposed to fluctuations in the exchange rates for currencies in which some of its commercial transactions are denominated (particularly USD, GBP, CHF and those of certain countries in the Far East), against a cost structure that is concentrated principally in the Eurozone. The company realises greater revenues than costs in all these currencies; therefore, changes in the exchange rate between the euro and the aforementioned currencies can impact the company's results.

Moreover, due to the geographical composition of the Company's subsidiaries, the Company is exposed to exchange rate risk related to intercompany financial flows (mainly dividends, loans, transactions on share capital).

The company's risk management policy aims to ensure that the average countervalue in euros of receipts on transactions denominated in foreign currencies for each collection (Spring/Summer and Fall/Winter) is equal to or greater than what would be obtained by applying the pre-set target exchange rates. The company pursues these aims by entering into forward contracts for each individual currency to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency. These positions are not hedged for speculative or trading purposes, consistently with the strategic policies adopted for prudent management of cash flows. Consequently, the company might forego opportunities to realise certain gains, but it avoids running the risks of speculation.

The company defines its exchange risk a priori according to the reference period budget for the reference period and then gradually hedges this risk upon acquisition of orders, in the amount according to which they correspond to budget forecasts. The process of hedging exchange rate risk is broken down into a series of activities that can be grouped into the following distinct phases:

- definition of operating limits;
- identification and quantification of exposure;
- implementation of hedges;
- monitoring of positions and alert procedures.

The Company monitors foreign exchange risk in intercompany financial transactions by monitoring the risk underlying outstanding liabilities (loans) and forecast liabilities (dividends and capital increases), in view of guaranteeing that no material operating and financial impact for the entities involved results from these transactions in relation to fluctuations in exchange rates. These goals are pursued by the Company through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects. These forward contracts are made to hedge the individual transactions, and not for speculation or trading. This is consistent with the strategic policies focused on prudent management of cash flows.

The breakdown of forward currency contracts (for sale and purchase) outstanding at December 31st, 2017 is illustrated in Note 14.

The assets and liabilities that are denominated in foreign currency are identified as part of the sensitivity analysis of exchange rates. In order to determine the potential impact on final results, the potential effects of fluctuations in the cross rates for the euro and major non-EU currencies have been analysed. The following table illustrates the sensitivity to reasonably likely changes in exchange rates on pre-tax profit (due to changes in the value of current assets and liabilities denominated in foreign currency) while holding all other variables constant:

euro		Impact on pre-tax profit 5% writedown of the foreign currency		Impact on pre-tax profit 5% revaluation of the foreign currency	
Currency	Country	FY 2017	FY 2016	FY 2017	FY 2016
CAD	Canada	(9,124.4)	(20,955.3)	10,084.9	83,652.6
CHF	Switzerland	371.4	(1,604.1)	(410.5)	674.7
GBP	UK	129.6	10,802.5	(143.3)	11,508.4
HKD	Hong Kong	(12,587.9)	65,679.1	13,913.0	92,985.7
JPY	Japan	(12,236.3)	5,999.9	13,524.3	27,539.4
KRW	Korea	57.8	58.1	(63.9)	5.1
RMB	China	(191,751.2)	40,874.5	211,935.6	(31,252.0)
SGD	Singapore	(16,001.6)	(13,510.5)	17,685.9	10,743.5
USD	USA	173,995.4	74,465.3	(192,310.7)	58,117.3
Other	n.a.	(10,004.1)	(1,208.8)	11,057.1	11,741.3
Total		**(77,151.3)**	**160,600.5**	**85,272.6**	**265,716.0**

euro 000's	Revaluation/Writedown foreign currency	Impact on pre-tax profit	Impact on Shareholders' equity
FY 2017	5%	(77.2)	(5,155.9)
	-5%	85.3	4,971.9

The impact on equity shown above relates to the effects on hedging reserve gross of tax effects. The analysis did not include assets, liabilities and future commercial flows that were not hedged, since fluctuations in exchange rates impact income in an amount equal to what is recognised in the fair value of adopted hedge instruments.

Interest rate risk. The Company is exposed to interest rate fluctuations, limited to its variable-rate debt instruments. Interest rate risk is managed in conformity to long-established practice with the aim of cutting down the risk of interest rate volatility, at the same time pursuing the goal of reducing the financial costs involved to a minimum. TOD'S S.p.A. has a syndicated loan signed with Mediobanca and Crédit Agricole with variable interest rate equal to EURIBOR 3M + 55 basis points (the reduction from 80 basis points to 55 basis points occurred last November 2017). To hedge the risk of possible changes in the interest rates on the loan, two derivative contracts (interest rate swaps - IRSs), have been signed, for a notional amount equal to the amount drawn for the loan. These derivatives protect the Company from the risk of a generalised rise in interest rates, swapping the variable rate on the loan for a contractually fixed rate (a quarterly rate of 0.748%). Such transactions have been recognised in accordance with cash flow hedge methodology provided by IAS39.

In addition to the above mentioned syndicated loan, TOD'S S.p.A. entered into two loan agreements with BNL S.p.A. (BNP Paribas Group) and Intesa San Paolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the expiry date. Interests rates are variables and equal to the EURIBOR 3m + 0.42% and EURIBOR 3m +0.5% respectively (Note 19). Considered the current financial markets situation and the current EURIBOR reference rate, the Company doesn't believe necessary to put in place hedging derivatives for such loans. The financial market trend and the related benchmark interests rates are constantly monitored by the Company, and, in case there could be an increase of risks in connection with the above mentioned loans, the Company will put in place appropriate hedging instruments in accordance with the strengthened Company's practice.

The sensitivity analysis carried out on interest rates has shown in addition that a hypothetically unfavourable change of 10% in short-term interest rates applicable to the adjustable rate financial liabilities existing at December 31st, 2017 would not have any impact on the pre-tax result, mainly due to the hedging instruments entered by the Company.

4.1 Categories of measurement at fair value

In accordance with IFRS 7, the financial instruments carried at fair value have been classified according to a hierarchy of levels that reflects the materiality of the inputs used to estimate their fair value. The following levels have been defined:

Level 1 – quoted prices obtained on an active market for the measured assets or liabilities;

Level 2 – inputs other than the quoted prices indicated hereinabove, which are observable either directly (prices) or indirectly (derived from prices) on the market;

Level 3 – inputs that are not based on observable market data.

The tables below show the breakdown of financial assets and liabilities between each financial category and the fair value hierarchy level at December 31st, 2017 and 2016:

2017	Assets							
euro 000's	Loans and receivables at amortized cost	Available for sales	Financial assets at fair value	Total	Level 1	Level 2	Level 3	Total
Other non-current assets	302			302				
Total other non-current assets	**302**			**302**				
Trade receivables	182,687			182,687				
Derivative financial instruments			2,688	2,688		2,688		2,688
Other current assets	9,000			9,000				
Bank	100,802			100,802				
Total other current assets	**292,489**		**2,688**	**295,177**		**2,688**		**2,688**

2017 euro 000's	Liabilities Financial liabilities at amortized cost	Financial liabilities at fair value	Total	Level 1	Level 2	Level 3	Total
Bank borrowings	137,572		137,572				
Other non-current liabilities	10,287		10,287				
Derivative financial instruments		1,197	1,197		1,197		1,197
Total other non-current liabilities	**147,859**	**1,197**	**149,056**		**1,197**		**1,197**
Trade payables	157,268		157,268				
Bank	46,176		46,176				
Derivative financial instruments		2,020	2,020		2,020		2,020
Other current liabilities	1,063		1,063				
Total other current liabilities	**204,507**	**2,020**	**206,527**		**2,020**		**2,020**

2016 euro 000's	Assets Loans and receivables at amortized cost	Available for sales	Financial assets at fair value	Total	Level 1	Level 2	Level 3	Total
Other non-current assets	325			325				
Total other non-current assets	**325**			**325**				
Trade receivables	188,569			188,569				
Derivative financial instruments			2,034	2,034		2,034		2,034
Other current assets	45,000			45,000				
Bank	87,989			87,989				
Total other current assets	**321,558**		**2,034**	**323,592**		**2,034**		**2,034**

2016 euro 000's	Liabilities Financial liabilities at amortized cost	Financial liabilities at fair value	Total	Level 1	Level 2	Level 3	Total
Bank borrowings	183,612		183,612				
Other non-current liabilities	9,973		9,973				
Derivative financial instruments		2,687	2,687		2,687		2,687
Total other non-current liabilities	**193,585**	**2,687**	**196,272**		**2,687**		**2,687**
Trade payables	131,478		131,478				
Bank	46,289		46,289				
Derivative financial instruments		7,239	7,239		7,239		7,239
Other current liabilities	1,464		1,464				
Total other current liabilities	**179,231**	**7,239**	**186,470**		**7,239**		**7,239**

Note that during the year 2017 there have not been any transfers between fair value levels indicated by the IFRS 7.

In connection with the fair value of financial assets and liabilities measured at amortised cost, given their nature, does not differ significantly from their carrying amounts.

5. Intangible fixed assets

5.1 Intangible assets with indefinite useful life. These include 137,235 thousand euros for the value of Group owned brands and goodwill from business combinations for 13,685 thousand euros recognised in accordance with the acquisition method (IFRS 3). The value of Brands is broken down amongst the various brands owned by the Company (TOD'S, HOGAN and FAY):

euro 000's	12.31.17	12.31.16
TOD'S	3,741	3,741
HOGAN	80,309	80,309
FAY	53,185	53,185
Total	**137,235**	**137,235**

5.2 Other assets. The following table details the movements of these assets in the current and previous fiscal year:

euro 000's	Other trademarks	Software	Other assets	Total
Balance as of 01.01.16	**4,186**	**7,600**	**13,569**	**25,355**
Increases	300	3,753	1,110	5,162
Decreases			(6)	(6)
Impairment losses				
Other changes				
Amortisation of the period	(777)	(3,629)	(2,712)	(7,119)
Balance as of 12.31.16	**3,708**	**7,724**	**11,960**	**23,392**
Increases	328	2,632	1,098	4,058
Decreases			(1)	(1)
Impairment losses				
Other changes				
Amortisation of the period	(810)	(3,163)	(2,527)	(6,501)
Balance as of 12.31.17	**3,226**	**7,193**	**10,530**	**20,949**

The increase of "Other trademarks" relates to long-term charges with a defined useful life incurred to protect the brands owned by the Company which are classified as assets with an undefined useful life.

The increase of "Software" mainly relates to the development of the Company's information systems, while the increase of the figure "Other assets" mainly relates to long-term investments made for the network of corners, franchise stores and the development of the digital channel.

Other assets includes 7,098 thousand euros as the value of the intangible asset recognised in relation to the agreement made with the Ministry of Cultural Affairs ("Ministero per i Beni e le Attività Culturali") and the Special Archaeological Service of Rome ("Soprintendenza speciale per i beni archeologici di Roma"), with which the Company has undertaken to finance the entire cost of restoration work on the Coliseum.

The amortisation of the asset has been done in accordance with its useful life based on the agreement provisions, and the amount recognised for the period is about 1.1 million euros.

6. Tangible fixed assets

The following table illustrates the changes during the current and previous fiscal year.

euro 000's	Land and buildings	Plant and machin.	Equip.	Leasehold improv.	Others	Total
Balance as of 01.01.16	**56,732**	**12,241**	**11,352**	**4,623**	**6,019**	**90,967**
Increases	1,951	1,404	4,124	150	451	8,080
Decreases		(10)	(177)	(11)	(136)	(334)
Impairment losses						
Other changes						
Depreciation of the period	(1,817)	(1,996)	(5,674)	(879)	(1,232)	(11,597)
Balance as of 12.31.16	**56,866**	**11,639**	**9,626**	**3,882**	**5,103**	**87,117**
Increases	2,632	2,604	4,235	663	1,496	11,629
Decreases	(14)	(24)	(318)	(1)	(468)	(825)
Impairment losses						
Other changes						
Depreciation of the period	(1,882)	(2,169)	(4,983)	(882)	(1,229)	(11,145)
Balance as of 12.31.17	**57,602**	**12,050**	**8,559**	**3,662**	**4,902**	**86,776**

The increase in the value of Land and Buildings and Plant and machinery is mainly due to investments done for the construction of the new plant located in Arquata del Tronto.

Equipments' increase is mainly related to the industrial tools acquisition for the creation of new collections (lasts and moulds). Depreciations of the period, related to properties plant and equipments are 11.1 million euros.

7. Impairment losses

The recoverability of the residual value of intangible assets with an indefinite useful life (brands and goodwill) was determined to ensure that assets with a value higher than the recoverable value were not recognised on the financial statements, which refers to their "value in use." The criterion used to determine "value in use" is based on the provisions of IAS 36, and is based on the current value of expected future cash flows (discounted cash-flow analysis - DCF), which is presumed to derive from the continual use and disposal of an asset at the end of its useful life, discounted at a net discounting rate (net of taxes) that reflects current market rates for borrowing money and the specific risk associated with the individual cash generating unit.

The recoverability of Assets was verified by comparing the net book value with the recoverable value (value in use). The value in use is represented by the discounted value of future cash flows that are expected from Assets and by the terminal value attributable to them. In connection with the recoverability of Assets, the Company has identified only one CGU and it has been tested the net invested capital.

The discounted cash flow analysis was carried out by using the FY 2018 budget as its basis. That budget was prepared and approved by the Board of Directors on the assumption that the Company would be a going concern for the foreseeable future: the Board of Directors first assessed the methods and assumptions used in developing the model. In particular:

i. The medium-term projection of budget figures for FY 2018 was carried out on a time horizon of further 4 years, using an average rate of sales growth of 5%, a constant EBITDA margin and a constant tax rate equal to 28%. The assumptions related to the sales growth in the middle term reflect reasonable estimates of growth which consider even the development trend of the whole luxury sector in the foreseeable future;

ii. The terminal value was determined as perpetuity, using, for future forecasts, a prudential long term growth rate in line with the macro-economics estimates performed by the International Monetary Fund.

iii. To determine the "value in use," a WACC, net of taxes, of 8.50% was used (the WACC rate used at December 31st, 2016 was 8.30%), determined by referring to the discounting rates used by a series of international analysts in financial reports on the TOD'S Group.

The analyses carried out on the recoverability of Company assets (including 137.2 million euros represented by proprietary brands and 13.7 million by goodwill from business combinations) showed an expected overall cash flow figure far higher than the total amount of net invested capital (cover).

The sensitivity analysis performed on the impairment test in accordance with IAS 36, in order to reveal the effects produced on the "value in use" by a reasonable change in the basic assumptions (WACC, growth rates, EBITDA margin) and determination of the terminal value (disposal value), did not reveal an appreciable impact on determination of the "value in use" and its coverage. Given the significant value assumed by the cover, it would be necessary to make unrealistic base assumptions to render the "value in use" equal to the book value of tested assets (the break-even hypothesis).

Furthermore, it's been performed an estimate of the recoverable amount of equity investments in subsidiaries (worth 583.1 million euros at December 31st, 2017), in accordance with IAS 36, regarding the investments with impairment indicators. Based on results, the carrying amount of the investment in Tod's Danmark APS has been impaired for 464 thousand euros because it's not reasonably predictable, as of today, to recover the carrying amount with future cash flows.
Finally, in accordance with IAS 36, it's been performed an estimate of the recoverable amount of brands using the royalty method with the same assumptions indicated above in terms of growth rates, tax rate, WACC and terminal value. From such analysis, no impairment indicators arose, considered that the brands recoverable value is higher than their book value.

8. Investments property

The residual value of investment property at December 31st, 2017 was 22 thousand euros. It consisted exclusively of real estate leased to third parties. The fair value of these investments is estimated to be 250 thousand euros, according to the market prices for similar properties available for rent at similar conditions.
The following table details the values of these investment property:

euro 000's	
Historic cost	115
Accumulated depreciation	(89)
Balance as of 01.01.17	**25**
Increases	
Decreases	
Amortisation of the period	(3)
Balance as of 12.31.17	**22**

9. Investments in subsidiaries, joint ventures and associated companies

Information about the subsidiaries follows below, together with a comparison between the carrying amount of the investments in subsidiaries and the respective value determined according to the equity method:

euro 000's Investments in subsidiaries	Percentage of share investment	Share capital	a) Measurement using equity method adjustmens	of which profit/(loss)	b) Carrying amount	a) - b) Difference
Investments in subsiadiries						
TOD'S Deutschland Gmbh	100%	153	14,323	1,179	3,153	11,170
TOD'S France Sas	100%	780	20,695	745	4,800	15,895
TOD'S Hong Kong Ltd	1%	12,209	1,119	(4,804)	129	990
Holpaf B.V.	100%	5,897	40,556	23	36,834	3,722
Un. Del. Kft	10%	163	48	(87)	18	30
Del. Com. S.r.l.	100%	31	41,656	411	51,108	(9,452)
TOD'S Macao Lda.	1%	1,846	43	(1,860)	19	24
TOD'S International BV	100%	2,600	181,964	7,513	36,171	145,794
An.Del. Inc.	100%	3,056	41,832	1,556	34,656	7,176
Roger Vivier S.p.A.	100%	10,000	479,038	20,860	415,479	63,559
TOD'S Danmark APS	100%	67	523	(411)	511	12
TOD'S Austria Gmbh	100%	50	286	131	50	236
Total			**822,083**	**25,256**	**582,928**	**239,155**
Investments in other entities						
Other investments	n.s.				131	
Total					**131**	
Total investments					**583,059**	

Changes in Investments in subsidiaries in year 2017 have been the following:

- Transfer of the share of TOD'S Brazil Ltda, occurred on May 4th, 2017. The negative result arose from such transfer has been equal to about 319 thousand euros which was computed as a difference between the selling price and the carrying amount of the equity investment sold,
- Payment on account of share premium reserve, for a total amount of 400 million JPYs, in the subsidiary Holpaf B.V. (equal to 3,130,678.33 euros, inclusive of hedging exchange effects),
- Conclusion of Polimoda S.r.l. liquidation process, ended last June 2017, and recognition of a loss for about 15 thousand euros as a consequence of the closing of its quota.

Furthermore based on results of the impairment test the carrying amount of the equity investment in Tod's Danmark APS has been impaired for 464 thousand euros (Note 7).

10. Deferred taxes

At the reporting date, recognition of the effects of deferred tax assets/liabilities, shows a net balance (liability) of 13,241 thousand euros (FY 2016: liability for 8,443 thousand euros).

When determining future tax impact, reference was made to the presumed percentage weight of the taxes that will be imposed on income in the years when those taxes will be charged. The balance of deferred tax assets and liabilities is shown in the following table, highlighting those components that contributed to their formation:

euro 000's	12.31.17	12.31.16
	Net liabilities	Net liabilities
Property, plant and equipment	(2,345)	(2,502)
Intangible fixed assets	(33,489)	(31,916)
Inventory (devaluation)	13,270	10,764
Derivative financial instruments	59	501
Costs deductible over several years	8,295	13,423
Reserves for employees	(163)	123
Provisions for risks and charges	1,051	366
Other	82	797
Total	**(13,241)**	**(8,443)**

11. Other non-current assets

The item Other non-current assets is mainly related to receivables versus tax authorities to be refunded.

12. Inventories

The following table shows the book value of the inventories:

euro 000's	12.31.17	12.31.16	Change
Raw materials	63,174	53,858	9,317
Semi-finished goods	10,040	9,003	1,037
Finished products	138,482	126,367	12,116
Write-downs	(47,275)	(38,346)	(8,930)
Total	**164,421**	**150,882**	**13,538**

The allowance for inventory write-downs reasonably reflects the technical and stylistic obsolescence of the Group's inventories at December 31st, 2017. The table below shows changes occurred during the year of the inventory write-down provision:

euro 000's	12.31.17	12.31.16
Opening balance	**38,346**	**20,850**
Increase	14,355	18,847
Utilization	(5,426)	(1,351)
Reversal		
Closing balance	**47,275**	**38,346**

13. Trade receivables and other current assets

13.1 Trade receivables.

euro 000's	12.31.17	12.31.16	Change
Third parties	89,020	94,943	(5,923)
Subsidiaries	99,862	99,317	545
Allowances for doubtful accounts	(6,194)	(5,691)	(504)
Net trade receivables	**182,687**	**188,569**	**(5,882)**

Receivables from third parties. These represent the credit exposure stemming from sales made through the wholesale channel.

Receivables from subsidiaries. They include the Company's receivables from Group entities and stem primarily from commercial transactions and, to a lesser extent, provision of services.

Allowances for bad debts. The amount of the adjustment to the face value of the receivables represents the best estimate of the loss determined against the specific and generic risk of inability to collect identified in the receivables recognised on the balance sheet, The changes in the allowances for bad debts are illustrated as follows:

euro 000's	12.31.17	12.31.16
Balance as of 01.01.17	**5,691**	**5,077**
Increase	900	1,000
Decrease	(396)	(387)
Balance as of 12.31.17	**6,194**	**5,691**

13.2 Tax receivables. Totalling 16,267 thousand euros (FY 2016: 10,986 thousand euros), they are mainly represented by receivables for income taxes and value added tax VAT.

13.3 Other.

euro 000's	12.31.17	12.31.16	Change
Prepaid expenses	2,140	2,125	15
Financial assets	9,000	45,000	(36,000)
Others	24,073	21,143	2,930
Total	**35,213**	**68,269**	**(33,056)**

The item "Others" mainly relates to receivables versus manufacturers for the raw materials sold in connection with manufacturing activities, to receivables for credit cards and other current receivables.

Financial assets are comprised exclusively by loans granted to the Group's companies:

euro 000's	12.31.17	12.31.16	Change
Financing within 12 months	9,000	45,000	(36,000)
Current account overdraft			
Total current assets	**9,000**	**45,000**	**(36,000)**
Financing beyond 12 months	-	-	-
Total financial assets	**9,000**	**45,000**	**(36,000)**

The amount for 9 million euros related to the outstanding amount of a loan granted to subsidiary Roger Vivier S.p.A. on January 27th, 2016 for a total amount of 130 million euros. The loan has been renewed, limited to the outstanding amount, for further 12 months. The loan has been partially reimbursed in advance during the year for 36 million euros.

14. Derivative financial instruments

The Company is exposed to both exchange rate risk, principally for revenues denominated in currencies other than the euro (see Note 4), and interest rate risk limited to its variable-rate debt instruments. The principal currencies that pose this risk are the U.S. dollar, Chinese yuan, Hong Kong dollar, Swiss franc, and British pound. In order to realise the objectives envisaged by the Risk Management policy, the Company enters in derivative contracts with primary banks for the hedging of the above mentioned risks; in particular, in connection with exchange rate risk, the Company entered in sell and/or buy foreign currency contracts (forward), while for the hedging of a variable interest rate risk, the Group entered in interest rate swaps agreements.

Moreover, the Company is exposed to exchange rate risk related to intercompany financial flows with subsidiaries with functional currencies different from euro (Note 4). These risks are managed by the Company through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects.

Forward contracts have been put in place, for each individual currency, to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency.

At the closing date, the notional amount of the currency forward sales agreements are summarized as follows:

Currency 000's	Sale		Purchase	
	Notional currency	Notional euro	Notional currency	Notional euro
US Dollar	28,030	23,372		
Hong Kong Dollar	475,000	50,683		
Japanese Yen			1,770,000	13,110
British Pound	26,500	29,868		
Swiss Franc	7,620	6,512		
Chinese Renmimbi	350,000	44,846		
Canadian Dollar	5,150	3,424		
Total		**158,706**		**13,110**

All derivative contracts will expire during the year 2018.

Below is summarized the composition of the outstanding derivatives at December 31st, 2017 and 2016, with information related to carrying amounts, current and non-current, in connection with fair value and cash flow hedge reserve, the latter presented net of its related tax effects.

euro 000's	12.31.17			12.31.16		
	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
Non-current						
Interest rate swaps - cash flow hedges		1,197	(909)		2,687	(2,042)
Forward foreign exchange contracts - cash flow hedges						
Forward foreign exchange contracts - fair value hedges						
Total non-current		**1,197**	**(909)**		**2,687**	**(2,042)**
Current						
Interest rate swaps - cash flow hedges		1,467	(880)		1,906	(1,135)
Forward foreign exchange contracts - cash flow hedges	1,318	532	1,603	1,304	2,973	1,591
Forward foreign exchange contracts - fair value hedges	1,370	21		730	2,360	
Total current	**2,688**	**2,020**	**723**	**2,034**	**7,239**	**456**
Total	**2,688**	**3,217**	**(186)**	**2,034**	**9,926**	**(1,586)**

The cash flow hedge reserve used for the exchange rate risk was equal to 6,796 thousand euros, of which 6,641 thousand euros were represented as an increase of revenues and 156 thousand euros as an increase of investments in subsidiaries.

The overall effect recognised in the income statement in connection with derivatives for the hedging of interest rate risk amounted to 1,840 thousand euros, totally represented in the financial expenses.

15. Cash and cash equivalents

Cash and cash equivalents are related to cash and bank deposits for 100,802 thousand euros (87,989 thousand euros at December 31st, 2016). For further information see the statement of cash flows.

16. Shareholders' equity

16.1 Share Capital. At December 31st, 2017, the Company share capital totalled 66,187,078 euros (unchanged in respect of December 31st, 2016), and was divided into 33,093,539 shares having a par value of 2 euros each, fully subscribed and paid in. All shares have equal voting rights at the general meeting and participation in profits. At December 31st, 2017, Mr. Diego Della Valle, President of the Board of Directors, hold, directly and indirectly, 60.663% of TOD'S S.p.A. share capital. At December 31st, 2017 the Company did not own treasury shares, and it did not execute any transactions on those shares during the year.

16.2 Capital reserves. Capital reserves are exclusively related to share premium reserve, amounting to 416,507 thousand of euros as of December 31st, 2017 (416,507 thousand of euros as of December 31st, 2016).

16.3 Hedging reserve. The following schedule illustrates the changes occurred in 2017:

euro 000's	Hedging reserve
Balance as of 01.01.16	**(4,356)**
Change in fair value of hedging derivatives	587
Transfer to Profit and Loss Account of hedging derivates	2,182
Other	
Balance as of 01.01.17	**(1,586)**
Change in fair value of hedging derivatives	5,167
Transfer to Profit and Loss Account of hedging derivates	(3,767)
Other	
Balance as of 12.31.17	**(186)**

For comments related to the changes of hedging reserve please see Note 14.

16.4 Other reserves and profit of the period. The following schedule illustrates the changes in fiscal 2017:

euro 000's	Other reserves	Profit (loss) of the period	Total
Balance as of 01.01.16	**315,364**	**85,663**	**401,028**
Allocation of 2015 result	19,476	(19,476)	
Dividends		(66,187)	(66,187)
Profit for the period		64,180	64,180
Other changes	(1,159)		(1,159)
Balance as of 01.01.17	**333,681**	**64,180**	**397,862**
Allocation of 2016 result	7,921	(7,921)	
Dividends		(56,259)	(56,259)
Profit for the period		84,977	84,977
Other changes	(874)		(874)
Balance al 31.12.17	**340,728**	**84,977**	**425,705**

Other changes for the year 2017 are mainly related to both the use of the specific reserve for promoting territorial solidarity projects, for 858 thousand euros and to the recognition of cumulated actuarial gains/(losses) for the period (IAS 19).

16.5 Information on distributable reserves. The following table provides information on the possible use and distribution of each specific account under shareholders' equity and their possible use during the past three years:

euro/000 Nature/Description	Amount	Possibility of use	Available amount	Not available amount	Use in the previous 3 years: coverage of losses	Use in the previous 3 years: others
Share capital	66,187			66,187		
Capital reserves						
Share premium reserve	416,507	A,B,C [1]	416,507			
Retained earnings reserves						
Legal reserve	13,237	B	13,237	13,237		
Retained earnings	328,525	A,B,C	328,525			212,797
Other profits/(losses) in OCI	(1,220)			(1,220)		
Total share capital and reserves	**823,236**		**758,270**	**78,204**		
Non-distributable reserves						
Residual distributable reserves			**758,270**			

Legend:

[1] Pursuant to section 2431 Italian Civil code, to entire amount of the reserve may be distributed only when the legal reserve has reached the limits set forth in Section 2430 Italian Civil code
A – for capital increase.
B – for coverage of losses.
C – for distribution to shareholders.

Tax suspension reserves. The following information is provided on reserves in shareholders' equity that, if distributed, will constitute taxable income for the company, in connection with the situation following the capital transactions carried out pursuant to the August 5th, 2000 resolution of the extraordinary Shareholders' Meeting:

a. for the reserves in equity, only the extraordinary reserve remains; formed with income that was regularly subjected to taxation, it would not constitute taxable income for the company were it to be distributed;

b. previously defined reserves have been converted into the form of share capital, as follows:

euro	
Reserve for adjustments art. 15 c. 10 DL 429/82	149,256.04
Reserve for greater reduction of VAT	508.19
Reserve for inflation adjustments pursuant to Law n. 72/'83	81,837.76
Reserve for deduction art. 14 c. 3 – Law n. 64/'86	5,783.80

for a total of euro 237,385.80, which, if distributed, would represent taxable income for the company.

16.6 Dividends. During 2017, the parent company TOD'S S.p.A. paid to the shareholders dividends for the net income realised in 2016. The aggregate amount of paid dividends is 56.3 million euros, at the rate of 1.7 euros for each of the 33,093,539 shares representing the share capital at the coupon detachment date (May 23rd, 2017). Regarding the net profit for FY 2017, totalling 84,976,553.79 the Board of Directors has proposed to distribute a dividend for 1.40 euros per share, totalling 46,330,954.60 euros in accordance with the current shares. The dividend is subject to approval by the annual Shareholders' Meeting in April 19th, 2018, and was not included among the liabilities reported on this balance sheet.

17. Provisions and contingent liabilities and assets

17.1 Provisions. They include the estimate of liabilities, with uncertain maturity date or amount, on which the Company might incur in case of a legal or constructive obligation in connection with a past event. The figures mainly include provisions related to both legal and tax lawsuits and risks and costs for employees. The table below shows the changes of provisions occurred during the period:

euro 000's	12.31.17	12.31.16
Provisions for risks - non current		
Opening balance	**4,328**	**3,628**
Increase	882	700
Utilization		
Reversal		
Closing balance	**5,210**	**4,328**
Provisions for risks - current		
Opening balance	**678**	**1,797**
Increase	3,090	383
Utilization	(208)	(1,502)
Reversal	(75)	
Closing balance	**3,485**	**678**

17.2 Contingent liabilities and other commitments.

i. Guarantees granted to others. A total of euro 49,849 thousand euros been granted to others at December 31st, 2017 (52,395 thousand euros in 2016). The amount is mainly related to guarantees granted to secure the contractual commitments of subsidiaries, comprised for 44,260 thousand euros to bank credit lines provided to the subsidiaries, for which the company acts as guarantor (FY 2016: 46,971 thousand euros).

ii. Guarantees received from third parties. Guarantees received by the company from banks as security for contractual commitments totalled 5,471 thousand euros (6,282 thousand euros in 2016).

iii. Other guarantees. TOD'S S.p.A. is guarantor (by taking over from the previous guarantor for the contractual obligations assumed by Holpaf B.V.) in favour of the banks that subscribed the two non-convertible, amortised and fixed-rate bond loans (Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque), issued in 2006 by the subsidiary Holpaf B.V. to refinance the debt assumed to purchase the land and construction of the building in Omotesando, Tokyo. In detail, these covenants concern:

a) *Property Purchase Option*: a put option granted to Intesa San Paolo Bank Ireland PLC on the Omotesando property, which may be exercised only if Holpaf B.V. defaults during the term of the bonds and the creditor demands payment of the mortgage. In this scenario, TOD'S S.p.A. must purchase the property at a specific price that varies over the term of the option (decreasing price, equal to the amount of the residual debt of the two bonds not repaid by Holpaf B.V. at the time of default);

b) *Earthquake Indemnity Letter*: TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property in an earthquake.

c) *All Risks Indemnity Letter:* TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property due to any event.

d) *Pledge on the fire insurance policy*: in the event of loss due to building fire, any reimbursement by the insurance company constitutes a pledge in guarantee of the bonds whose value has not yet been repaid to Intesa Sanpaolo Bank Ireland PLC and Société Européenne de Banque.

At December 31st 2017, the outstanding face value of the principal for the bond amounted to JPY 1,581 million (11.7 million euros).

17.3 Operating lease agreements. The operating leases entered into by the Company are for use of properties used to conduct its operating activities (offices, production plants). The amount of minimum lease payments pursuant to these agreements is as follows:

euro millions	2017	2016
2017		6.1
2018	6.4	4.5
2019	5.5	3.4
2020	5.0	3.2
2021	4.4	3.1
2022	4.0	
Over 5 years	2.8	3.1
Total	**28.1**	**23.4**

Operating lease instalments, included in the item Costs of use of third party assets, totalled euros 7.9 million in fiscal year 2017 (FY 2016: 7.6 million euros).

18. Employee benefits

The main actuarial assumptions used for the computation of TFR (termination benefit provided by Italian law on behalf of the Company employees) are summarized below:

- Discounting rate: 1.3%
  It is related to the average yield curve from IBOXX Eurozone Corporates AA of December 2017.
- Inflation rate: 1.5%;
- TFR incremental rate: 2.625%.

The table below shows the variation of the liability occurred in 2017:

euro 000's	Year 2017	Year 2016
Opening balance	**7,642**	**7,676**
Service costs		
Interest costs	101	157
Benefits paid	(421)	(429)
Actuarial (gains)/losses	17	238
Other		
Closing balance	**7,339**	**7,642**

Employee benefits include even other long term employee benefits.

19. Financial liabilities

euro 000's	12.31.17	12.31.16	Change
Current account overdraft			
Financing	183,747	229,901	(46,154)
Total	**183,747**	**229,901**	**(46,154)**

Currency 000's Type	Counterpart	Currency	Maturity	Res. Debt in currency	Res. Debt in euros
Medium and long term bank pool loan	Mediobanca - Crédite Agricole	Eur	2021	149,372	149,372
Medium and long term loan	Banca Nazionale del lavoro S.p.A.	Eur	2019	9,381	9,381
Medium and long term loan	Intesa SanPaolo S.p.A.	Eur	2019	24,994	24,994
Total financing					**183,747**

The medium and long term bank pool loan is related to the financing agreement signed on July 2014 by TOD'S S.p.A. and Mediobanca/Crédit Agricole, which has a variable interest rate equal to EURIBOR 3M + 55 basis points. The loan was hedged with two derivative contracts (interest rate swaps - IRSs) for the same notional amount and duration (Note 14). The duration of such loan is 7 years from the signing date (July 2014) and it will be refunded on a quarterly basis.

The medium and long term loans are related to two loan agreements signed in 2015 between the Company and BNL S.p.A. (BNP Paribas Group) and Intesa San Paolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the expiry date. Interests rates are variables and equal to the EURIBOR 3m +0.42% and EURIBOR 3m +0.5% respectively.

These loans contains, among others, specific financial covenants; in particular, it is requested to respect the following parameters computed at a Group level:

Bank	Financial covenants	Limit at 31st December
Mediobanca/Crédit Agricole	Net financial liabilities/EBITDA	≤ 3.5
Banca Nazionale del lavoro S.p.A.	Net financial liabilities/EBITDA	≤ 3.5
Intesa SanPaolo S.p.A.	Net financial liabilities/EBITDA	≤ 3

The parameters indicated above are constantly monitored by the Company, and all financial covenants are fulfilled at December 31st, 2017.

The table below illustrates the breakdown of financial liabilities, which include the accrual for interests at the reporting date:

euro 000's	Medium and long term loan (BNL)	Medium and long term loan (Intesa)	Medium and long term pool loan (Mediobanca/Credit Agricole)	Total
2018	6,250		40,000	46,250
2019	3,125	25,000	40,000	68,125
2020			40,000	40,000
2021			30,000	30,000
2022				-
Over 5 years				
Total	**9,375**	**25,000**	**150,000**	**184,375**
Accruals and amortized cost	6	(6)	(628)	(628)
Total	**9,381**	**24,994**	**149,372**	**183,747**

For the sensitivity analysis on interest rates (IFRS 7) and the disclosures on three further financing agreements related to credit lines available for the Company, but not yet used at December 31st, 2017, see Note 4.

20. Other non-current liabilities

The balance for this item, 14.3 million euros (13.3 million euros at December 31st, 2016), refers for about 10.3 million euros to the liability recognised in relation to the agreement made for financing of restoration work on the Coliseum (Note 5), for 2.6 million euros to the non-current part of the return reserve and for 1.4 million euros to other non-current liabilities. The liability in relation to the Coliseum was recognised at the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work.

21. Trade payables and other current liabilities

21.1 Trade payables.

euro 000's	12.31.17	12.31.16	Change
Third parties	138,055	110,970	27,085
Subsidiaries	19,213	20,507	(1,294)
Total	**157,268**	**131,478**	**25,791**

The increase of trade payables is due to the normal business trend.

To Third parties. These stem exclusively from commercial transactions as part of ordinary processes for purchase of goods and services.

To subsidiaries. These represent payables to Group entities, principally for provision of services.

21.2 Tax payable.

At December 31st, 2017 tax payables are 3,767 thousand euros and they mainly relate to withholding taxes on income of employees (3,201 thousand euros in 2016).

21.3 Other.

euro 000's	12.31. 17	12.31. 16	Change
Payables to employees	6,453	5,773	681
Social security institutions	4,318	4,253	65
Others	35,762	56,919	(21,157)
Total	**46,533**	**66,944**	**(20,411)**

Payables to employees reflected amounts accrued in their favor (including unused holiday leave) that had not yet been paid at the reporting date. Other liabilities is mainly related to advance from customers for 3.9 million euros, the current portion of estimated returns at the end of the financial year for 27 million euros, and other liabilities versus subsidiaries for 4.9 million euros. The change compared to the previous year was mainly attributable to utilisation of the estimated returns related to products branded ROGER VIVIER-branded already recognised in the previous year following the redefinition of distribution strategies, mainly as a result of the acquisition of the ROGER VIVIER brand.

22. Revenues

Net sales during the year totalled 662.6 million euros (637.2 million euros in 2016). For further comments on sales revenues see the report on operations.

For further details related to revenues see the comments provided in the report on operations.

The item "Other revenues and income" amounts 7.8 million euros (32.7 million euros in 2016) and it mainly includes royalties, extraordinary income and insurance reimbursements. The decrease in respect of the previous year is mainly related to the recognition, occurred last year, of the payment of an indemnity for 25 million euros in connection with ROGER VIVIER brand acquisition.

23. Personnel costs

The personnel costs incurred by the Group in FY 2017 as compared with those for FY 2016 are illustrated as follows:

euro 000's				% on revenues	
	Year 2017	Year 2016	Change	2017	2016
Wages and salaries	61,577	60,476	1,101	9.3	9.5
Social security contribution	21,225	18,517	2,709	3.2	2.9
Employee sev. indemn.	4,021	4,018	3	0.6	0.6
Total	**86,823**	**83,011**	**3,812**	**13.1**	**13.0**

The following table illustrates the breakdown of the Group's employees by category:

	12.31.17	12.31.16	Aver. 17	Aver. 16
Executives	42	40	39	39
White-collar Employees	862	816	814	799
Blue-collar Employees	865	839	891	908
Total	**1,769**	**1,695**	**1,743**	**1,746**

24. Financial income and expenses

The breakdown of financial income and expenses in fiscal FY 2017 is as follows:

euro 000's	Year 2017	Year 2016	Change
Income			
Interest income on current account	302	771	(469)
Foreign exchange gains	9,749	11,466	(1,717)
Other	504	1,135	(630)
Total income	**10,556**	**13,372**	**(2,816)**
Expenses			
Interest on medium-long term financing	(1,126)	(1,891)	764
Foreign exchange losses	(14,873)	(13,185)	(1,688)
Other	(2,720)	(6,932)	4,212
Total expenses	**(18,719)**	**(22,008)**	**3,288**
Total net income and expenses	**(8,164)**	**(8,636)**	**472**

25. Income and expenses from subsidiaries

During the year, the Company received dividends from subsidiaries Tod's Hong Kong Ltd. and Tod's International B.V. for 81 thousand euros and 8.000 thousand euros respectively.

It is highlighted that, as a consequence of the impairment test on investments in subsidiaries of controlled entities, the Company written off the investment in the controlled entity TOD'S Danmark APS for a total amount of 464 thousand euros (Note 7).

The Company registered costs from investments in subsidiaries for a total amount of 333.8 thousand euros related to both the sales of TOD'S Brasil Ltda and the conclusion of the liquidation process of Polimoda S.r.l. (Note 9).

26. Income taxes

The tax liability for fiscal 2017 (current and deferred) was 26.9 million euros, giving a tax rate of 24% (FY 2016: 28.3%), Income taxes for the period are broken down into current and deferred taxes, as follows:

euro 000's	Year 17	Year 16	Change
Current taxes	22,534	34,795	(12,261)
Deferred taxes	4,355	(9,499)	13,854
Total	**26,889**	**25,296**	**1,593**

The theoretical tax rate for FY 2017 was 24% computed applying the current rates for IRES (income tax on company's profits). The following schedule reconciles theoretical taxes and the taxes actually charged to income:

euro 000's	Taxes	Rate %
Theoretical income taxes	**26,848**	**24.0%**
IRAP effect	3,924	3.5%
Tax effects of non-deductible or partially deductible costs	282	0.3%
Non-taxable income	(2,342)	(2.1%)
Other	1,217	1.1%
Previous year taxes	176	0.2%
"Patent box" IRES tax effect	(3,216)	(2.9%)
Effective income taxes	**26,889**	**24.0%**

The tax effect of the so-called "Patent box" is related to the agreement signed by the Parent company on December 23rd, 2016 with the competent office of the Italian Tax Authorities, with which it's been defined the methods and criteria used to calculate the amount of the quota of income exempt from income taxes for the purpose of the so-called "Patent box" regime. This is a tax relief regime for the benefit of Italian companies that produce income through the direct use or the licensing to third parties of intellectual property rights.

Tax consolidation program. The company, exercising the option envisaged by the new version of the TUIR and the implementing decree pursuant to ex Art. 129, together with the Italian subsidiaries that are presumably subject to a controlling relationship pursuant to ex Art. 120 TUIR, decided to have the Group participate in the national tax consolidation program for IRES.
According to this law, TOD'S S.p.A., as controlling company, has aggregated its income with that of the subsidiaries participating in the national tax consolidation program since fiscal 2004, It does so by fully offsetting all the positive and negative taxable amounts, thereby benefiting from any losses contributed by the subsidiaries and assuming the expenses transferred from those subsidiaries with positive taxable income.
TOD'S S.p.A. essentially acts as a "clearing house" for taxable income (profits and losses) of all Group companies participating in the tax consolidation program, as well as financial relationships with revenue agency offices. At the same time, it recognizes liabilities or credits vis-à-vis those subsidiaries that produced tax losses and those that, on the contrary, transferred taxable income. Independently of the taxes that are paid, the company's net result is impacted exclusively by the income taxes accrued on its own taxable income.

27. Earnings per share

The calculation of base and diluted earnings per share is based on the following:

i. **Reference profit.**

euro 000's For continuing operations	Year 17	Year 16
Profit used to determine basic earning per share	84,977	64,180
Dilution effects		
Profit used to determine diluted earning per share	**84,977**	**64,180**

euro 000's For continuing operations	Year 17	Year 16
Net profit of the year	84,977	64,180
Income (loss) from discontinued operations		
Profit used to determine basic earning per share	**84,977**	**64,180**
Dilution effects		
Profit used to determine diluted earning per share	**84,977**	**64,180**

In both fiscal 2017 and 2016, there were no dilutions of net consolidated earnings, partly as a result of activities that were discontinued during the periods in question.

ii. Reference number of shares.

	Year 17	Year 16
Weighted average number of shares to determine basic earning per share	33,093,539	32,916,587
Share Options		
Weighted average number of shares to determine diluted earning per share	33,093,539	32,916,587

iii. Base earnings per share. Calculation of the base earning per share for fiscal year 2017 is based on the net profit attributable to holders of ordinary shares of the company TOD'S S.p.A., totalling 84,977 thousand euros (64,180 thousand euros in 2016), and on the average number of ordinary shares outstanding during the same period, totalling 33,093,539 (32,916,587 in 2016).

iv. Diluted earnings per share. Calculation of the diluted earnings per share for the period January-December 2017 is the same as the base earnings per share, due to the fact that there are no items which produce dilution effects.

28. Transactions with related parties

The Company's related parties transactions were executed in compliance with the procedural sequence and implementing procedures set out in the Related Parties Transactions Procedure approved by the TOD'S S.p.A. Board of Directors in implementation of the Related Parties Regulation adopted by CONSOB with Resolution no. 17221 of March 12th, 2010, as subsequently amended.

In accordance with market best practices, significant related party transactions are subject to an in-depth review involving, inter alia:

(i) complete, prompt transmission of material information to the delegated Board of Directors committees (the Control and Risk Committee and the Independent Directors Committee, each within the ambit of their delegated responsibilities, where the majority or all members of these committees are independent directors), who in the performance of their functions also avail themselves of the assistance of independent experts;

(ii) the issuance of an opinion (either binding or non-binding, as applicable) before approval of the transaction by the Board of Directors (or, if appropriate, by the body delegated to resolve on the transaction). Without prejudice to the principles of procedural fairness cited hereinabove, no unusual related party transactions, or other related party transactions that might compromise corporate assets or the completeness and fairness of company accounting and other information were executed during the financial year.

All transactions – which are connected with the normal operations of TOD'S S.p.A. – were executed solely on behalf of the company by applying contractual conditions consistent with those that can theoretically be obtained on an arm's length basis.

Most significant transactions concluded during the year

On June 29th, 2017 the strategic partnership agreement in place with Italiantouch S.r.l., a company controlled by Directors Diego Della Valle and Andrea Della Valle and owned by the former, was renewed for five additional years for the develoment of the Group's e-commerce channel. The agreement concerns the sales of products under all four brands owned by the Group, through the e-commerce platform of the partner, and provides for the development of already esisting markets under the previous agreement and the implementation of the channel in new geographical areas.

Related party transactions pending at December 31st, 2017

In continuation of contractual relationships already existing in 2016, the Company continued to maintain a series of contractual relationship with related parties (directors/controlling or significant shareholders) in 2017. The principal object of the transactions of the year was the sale of products and lease of sales spaces, show rooms and offices.

i. Commercial transactions with related parties – Revenues

euro 000's	Sales of Products	Rendering of services	Sales of assets	Royalties	Operating leases	Other operations
Year 2017						
Parent Company (*)	9,739				5	
Directors						
Executives with strat. resp.						
Other related parties						
Total	**9,739**	**-**	**-**	**-**	**5**	**-**
Year 2016						
Parent Company (*)	7,635	4			5	
Directors						
Executives with strat. resp.						
Other related parties						
Total	**7,635**	**4**	**-**	**-**	**5**	**-**

(*) *Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle*

ii. Commercial transactions with related parties – Costs

euro 000's	Purchases of products	Rendering of services	Purchases of assets	Royalties	Operating leases	Other operations
Year 2017						
Parent Company (*)	275	271			3,786	252
Directors						
Executives with strat. resp.						
Other related parties						
Total	**275**	**271**	**-**	**-**	**3,786**	**252**
Year 2016						
Parent Company (*)	272	435			3,740	192
Directors						
Executives with strat. resp.						
Other related parties						
Total	**272**	**435**	**-**	**-**	**3,740**	**192**

(*) *Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle*

iii. Commercial transactions with related parties – Receivables and payables

	12.31.17		12.31.16	
euro 000's	Receivables	Payables	Receivables	Payables
Parent Company (*)	2,001	550	2,095	252
Directors				
Exec. with strat. respons.				
Total	**2,001**	**550**	**2,095**	**252**

(*) *Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle*

Due to the fact that the above mentioned amounts are not significant, the disclosure hasn't been provided separately in the face of the financial statements in accordance with CONSOB resolution n. 155519 of July 27th, 2006.

Compensation of Directors, Statutory Auditors, and General Managers

The following table illustrates the compensation accrued in fiscal 2017 by each of the Directors, Statutory Auditors, Executives with Strategic Responsibilities of TOD'S S.p.A. (including for the activities that they performed at subsidiaries) for any reason and in any form:

euro 000's	Compensation for office	Compensat. for part. in Commit.	Non cash benefits	Bonus and other incentives	Compens. as employ.	Other compens.	
Directors							
Diego Della Valle (*)	1,832.1	8.7					
Andrea Della Valle (**)	1,232.1	8.7					
Luigi Abete	31.8	7.8					
Maurizio Boscarato	32.1	9.3				220.0	(2)
Luigi Cambri	32.1	9.3				9.0	(4)
Sveva Dalmasso	32.1	7.8					
Emanuele Della Valle	30.6						
Romina Guglielmetti	32.1	17.4					
Emilio Macellari (****)	247.1	8.7				480.0	(2)
Vincenzo Manes	32.1	15.9					
Cinzia Oglio	32.1		2.9	28.8	147.7		
Pierfrancesco Saviotti	31.5	7.5					
Michele Scannavini	32.1						
Stefano Sincini (***)	448.1	8.7	3.9		516.2	111.0	(1)
Total	**4,078.0**	**109.8**	**6.7**	**28.8**	**663.9**	**820.0**	
Statutory Auditors							
Giulia Pusterla (*****)	90.0						
Enrico Colombo	60.0					58.5	(3) (4)
Fabrizio Redaelli	60.0						
Total	**210.0**					**58.5**	
Executives with strategic responsibilities (******)			7.0	63.0	972.2	126.0	(1)

Legend

(*) Chairman of Board of Directors
(**) Vice Chairman of Board of Directors
(***) Chief Executive Officer
(****) Member of Executive Committee
(*****) Chairman of the Statutory Board
(******) Includes General Directors salaries limited to compensation for the employment relationship.

(1) Director of subsidiary
(2) Consultant TOD'S S.p.A.
(3) Statutory Auditor of subsidiary
(4) Member of Compliance Program Supervisory Board

The table above does not include the indemnities for termination of the office as a Director and for the employment relationship of the Chief Executive Officer and General Manager Stefano Sincini for which reference is made to the press release published on the website www.todsgroup.com on March 13th, 2018.

No severance indemnity is provided for Directors and Executives with Strategic Responsibilities.

Intercompany transactions

TOD'S S.p.A. has commercial and financial relationships with the companies in which it directly or indirectly owns a controlling equity interest. The transactions executed with them substantially involve the exchange of goods, provision of services and the provision of financial resources. They involve ordinary operations and are settled on an arm's length basis. The following table shows the country breakdown of the value of commercial relationships with subsidiaries in 2017:

Euro/000		12.31.17			12.31.16		
	N° Companies	Receivables	Payables	Net revenues / (costs)	Receivables	Payables	Net revenues / (costs)
Italy	5	21,791	14,645	34,767	16,485	18,547	32,953
Albania	1		352	(2,442)		160	(1,767)
Austria	1	3,193		4,199	998		2,703
France	3	4,897	3,191	10,284	7,466	1,496	14,158
Germany	1	2,909	536	9,686	3,788	555	9,546
Great Britain	4	7,000	397	20,185	5,300	312	16,384
Denmark	1	123	1	254	146	7	287
Netherlands	2	1,533	305	5,625	1,331	12	5,519
Switzerland	2	3,272	11	9,982	3,503	17	11,558
Spain	1	1,215	74	5,132	772	55	4,046
Hungary	1	-	570	(1,353)	3	726	(1,263)
Belgium	1	207	19	487	62	6	369
Usa	13	8,983	1,982	17,465	8,440	2,220	23,253
Japan	2	172	5	649	187	364	375
Hong Kong	2	18,051	1,044	58,984	16,562	1,664	72,857
Singapore	2	13	5	78	29	1	82
Korea	2	8,235	21	20,704	9,112	184	22,893
Macao	2	14		74	11		70
China	2	22,458	2,421	45,186	24,919	7,312	26,262
Brazil	1	-	-	103	85	616	35
India	1	154	5	28	125	4	29
Total	**50**	**104,222**	**25,584**	**240,076**	**99,324**	**34,260**	**240,351**

The receivables and payables recognised by the Italian companies include the receivables and payables resulting from the tax consolidation programme, totalling 2 thousand euros and 4,031 thousand euros, respectively.

Following below are the details of the financial and capital transactions:

euro 000's	Financing	
	12.31.17	12.31.16
ROGER VIVIER S.p.A.	9,000	45,000
Total	**9,000**	**45,000**

Other current financial assets are related to a loan granted to subsidiary Roger Vivier S.p.A., partially reimbursed in advance on January 2017 (for 13 million euros) and on December 2017 (for 23 million euros). The loan was renewed, only for the outstanding amount, for an additional year, expiring on January 27th, 2019 and accrues interest at arm's length.

29. Events and significant non-recurring transactions

Pursuant to Consob Communication No. DEM/6064293 of July 28th, 2006, the Company did not carry out any significant non-recurring operations in 2017.

30. Independent Auditors compensation

Pursuant to Article 149-*duodecies* of the Issuers Regulation, the compensation received in FY 2017 by the independent auditor PricewaterhouseCoopers S.p.A. and the companies belonging to its network are illustrated below, as broken down into auditing services and the provision of other services:

Type of service	Company	Receiver	Fees euro's 000
Auditing services	PricewaterhouseCoopers S.p.A.	TOD'S S.p.A.	151
Other services	PricewaterhouseCoopers S.p.A.	TOD'S S.p.A.	23
Auditing services	PricewaterhouseCoopers S.p.A.	Subsidiaries	33
Total PricewaterhouseCoopers S.p.A.			**206**
Auditing services	PricewaterhouseCoopers (Network)	Subsidiaries	162
Other services	PricewaterhouseCoopers (Network)	TOD'S S.p.A.	41
Other services	PricewaterhouseCoopers (Network)	Subsidiaries	118
Total PricewaterhouseCoopers Network			**321**

31. Items or transactions resulting from unusual and/or exceptional transactions

There were no items or transactions resulting from unusual and/or exceptional transactions during the year.

32. Significant events occurring after the end of the fiscal year

In order to raise liquid funds necessary to finance any possible requirements arising from core commercial operations and general business needs, the Company entered into two loan agreements with two major banks after the reporting date. On January 26th, 2018 a loan agreement was entered into with Banco BPM S.p.A., which granted a 4-year revolving credit facility, in a maximum amount of 100 million euros, which had not yet been used at the reporting date. On January 29th, 2018 a loan agreement was entered into with Intesa Sanpaolo S.p.A., in an amount of 100 million euros, which bears no charges and interest, to be repaid in a single instalment on January 29th, 2019.

33. Certification of the Separate Financial Statements of TOD'S S.p.A. and the Consolidated Financial Statements of the TOD'S Group pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14th, 1999, as amended

1. The undersigned Stefano Sincini, Chief Executive Officer of TOD'S S.p.A., and Rodolfo Ubaldi, manager responsible for the drawing up of the financial reports of TOD'S S.p.A., certify, in accordance with the provisions of Article 154-bis, subsections 3 and 4, of Legislative Decree no. 58 of February 24th, 1998:

- the adequacy in terms of the company's characteristics and
- effective application

of administrative and accounting procedures for preparation of the Separate Financial Statements and Consolidated Financial Statements during the period January 1st, 2017 to December 31st, 2017.

2. They also certify that the Separate Financial Statements and Consolidated Financial Statements:
a) have been prepared in compliance with the International Financial Reporting Standards recognised in the European Union pursuant to Regulation EC 1606/2002 of the European Parliament and Council of July 19th 2002;
b) correspond with the account books and ledger entries;
c) give a true and fair view of the assets, liabilities, income and financial position of the issuer and entities included in the scope of consolidation.

3. Report on operations provides a reliable analysis of the issuer's operating performance and income, as well as the financial position of the issuer and all the businesses included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, March 13th, 2018

Stefano Sincini
Chief Executive Officer

Rodolfo Ubaldi
Manager responsible for the drawing up of the financial reports

Independent auditor's report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of TOD'S SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of TOD'S SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Key Audit Matters	***Auditing procedures performed in response to key audit matters***

Allowance for inventory write-downs

(See note 12 to the separate financial statements)

Final inventories of raw materials, semi-finished and finished products, amounting to Euro 164 million at 31 December 2017 (about 12 per cent of total assets), are carried net of an allowance for inventory write-downs of Euro 47 million, which is about 22 per cent of the value of final inventories.

The allowance for inventory write-downs is estimated with reference to raw materials on the basis of their possibility of use within the production process and as regards finished products based on the ageing of collections in stock and their foreseeable usage through the TOD'S Group distribution channels.

We focused on the allowance for inventory write-downs taking account of its relevance in absolute terms and the complexity of the estimates performed by TOD'S management to evaluate it.

We obtained the calculation of the allowance for inventory write-downs prepared by the management of TOD'S and we verified its mathematical accuracy.

In relation to raw materials, we evaluated the adequacy of the allowance by checking the adequacy of the write-down percentages used by the Company that we compared for consistency with those of the previous years, with historical data and products scrapped in the year, as well as by performing analysis targeted on no- or slow-moving raw material categories.

With reference to finished products we evaluated the adequacy of the allowance by verifying the adequacy of the write-down percentages used by the Company on unsold items referred to one season/collection, checking the consistency of these percentages with the previous years, analysing the historical sale trend of non-current collections over the TOD'S Group distribution channels and the products scrapped in the year, as well as by verifying the adequacy throughout the years of the amount of the inventory write-down allowance initially accrued in relation to each season/collection.

In order to ascertain whether additional write-downs needed to be made, we also carried out analyses on the sales with negative margins realised in the subsequent year.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Equity investment in Roger Vivier *(See note no.9 to the separate financial statements)*	
The investment in Roger Vivier SpA, fully owned by TOD'S SpA, is recorded in the separate financial statements as at 31 December 2017 at the historical cost of Euro 415 million, accounting for about 31 per cent of total assets. The investment is valued at historical cost and tested for impairment, i.e. a testing aimed to verify if the recoverable amount is higher than its carrying amount, when impairment indicators exist. Specifically, in order to identify any impairment indicator, the Company verified that the impairment test performed in the financial statements of Roger Vivier SpA at 31 December 2017 on the Roger Vivier brand, recognised for Euro 415 million, did not highlight the need to make any write-downs. We focused our attention on the investment in Roger Vivier SpA because it consists of a significant amount, its valuation process is complex and it requires a high degree of professional judgement, since the recoverability of its value is closely connected with that of the Roger Vivier brand.	We verified if any impairment indicators existed in relation to the investment in Roger Vivier SpA by reviewing the results of the impairment test performed on the Roger Vivier brand by TOD'S management. Within this context, we verified the reasonableness of the Roger Vivier 2018 budget and the additional projections for the explicit period of the impairment test, as well as the reasonableness of the underlying key assumptions. In particular, we focused our attention on the reasonability of the increase in revenue checking its consistency with the historical growth trend of revenue. We also evaluated the reliability of the projections made by management, verifying that the 2017 budget had been achieved and analysing the actual data in the first two months of 2018. Finally, we verified, with the support of PwC network experts in evaluations, the consistency of the impairment model adopted by the Company with the standard evaluation practice, as well as the adequacy of the key assumptions used by management and the accuracy of the calculations.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 19 April 2012, the shareholders of TOD'S SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of TOD'S SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of TOD'S SpA as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of TOD'S SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of TOD'S SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Bologna, 29 March 2018

PricewaterhouseCoopers SpA

signed by

Edoardo Orlandoni
(Partner)

This report has been translated into English from the original, which was issued in Italian language, solely for the convenience of international readers.